SD Publication Series
Office of Sustainable Development
Bureau for Africa

Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 5: Southern Africa

Final Report

Jim Maxwell
Richard Gordon
Abt Associates

Technical Paper No. 82
December 1997

USAID

Productive Sector Growth and Environment Division
Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development

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Publication services provided by **AMEX International, Inc.**
pursuant to the following USAID contract:

Project Title:	Policy, Analysis, Research, and Technical Support Project
Project Number:	698-0478
Contract Number:	AOT-C-00-96-90066-00

Contents

Foreword

The creation of the Development Funds for Africa (DFA), and, more recently, funding constraints have challenged the U.S. Agency for International Development (USAID) to scrutinize vigorously the effectiveness and impact of its development assistance programs in Africa and to make adjustments needed to improve on the record of the past. Structural Adjustment programs have been adopted by many sub-Saharan African countries, albeit reluctantly, and some significant economic development progress has been made. As donor agencies face severe cutbacks and restructuring of their own and as less assistance become available to developing countries, in sub-Saharan Africa and elsewhere, new ways must be found to channel the declining resources to their most effective and productive uses. Donor agencies like USAID, therefore, are increasingly looking at the private sector for new and innovative ways of improving competitiveness, and often to agriculture as the potential catalyst for generating broad based, sustainable economic growth. In the light of the DFA and sub-Saharan African countries' recent development experiences under Structural Adjustment Program, the USAID Africa Bureau's Office of Sustainable Development, Division of Productive Sector Growth and Environment (formerly ARTS/FARA), has been examining the Agency's approach to the agricultural sector.

In January 1991, the Africa Bureau adopted "A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in sub-Saharan Africa" to provide analytical guidance to USAID/W, REDSOs, and field missions. The framework suggested that:

(a) while technical and environmental problems must continue to be addressed, a major cause of poor performance of the agricultural sector has been the inefficiency of the market structures and strategies;

(b) improvements in marketing efficiency require a good understanding of the structural arrangements, organization and operating strategies available to those entrepreneurs who constitute the majority of the business entities;

(c) such improvements could have a significant beneficial impact on incomes, foreign exchange earnings, domestic consumption and food security.

To enhance the analytical guidance and technical support that the African Bureau provides to the field, SD/PSGE initiated a series of assessment of donor agencies' innovative agribusiness projects in a number of sub-Saharan Africa countries to develop case studies of agribusiness firms targeted by or benefitting from these projects. The objective of the assessments was to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.

This document is Volume 5 of a five-volume set presenting the Southern Africa (Mozambique, Tanzania and Zimbabwe) research findings. While the Southern Africa research addressed all of the key focus areas of the Innovative Approaches activity, it placed special emphasis on SME development and NTAE development. These topics are, therefore, covered in more detail in this report.

Abt Associates, under the Global Bureau's AMIS II project, conducted the field research and report preparation. The USAID field mission in each country collaborated with PSGE/PSD and Abt Associates, the contractor, and was particularly helpful in providing counsel and direction of the field research and reviewing of the field draft report.

SD/PSGE believes that the findings and recommendations of this report will help the Africa Bureau, field missions, host country governments, and private sector groups make more informed decisions on future project design, implementation, monitoring, and evaluation.

David Atwood
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USAID

Acknowledgments

Abt Associates, the AMIS II team, and the authors wish to thank the many individuals in Zimbabwe, Mozambique, and Tanzania who contributed their time and experience to this study. A list of individuals interviewed is included as Appendix D. Of special assistance were Robert Armstrong and Alexander Shapleigh at USAID/Zimbabwe, David Newberg and Fernando Pixiao at USAID/Mozambique, and Diana Putman and Thomas Tengg at USAID/Tanzania.

John Holtzman of Abt Associates enhanced the report with his technical review and Jack Hopper did the final edit. Otilia Santos of Abt Associates spent many long hours formatting and finalizing the report.

Dr. Charles Whyte of AFR/SD/PSGE/PSD is the Innovative Approaches activity manager and was a substantial and ongoing contributor to all phases and aspects of the activity, especially analysis and draft enhancement.

The overall *Innovative Approaches* activity is managed by Jim Maxwell of AMIS II/Cargill Technical Services, who was also the principal analyst and author of sections of this report other than those relating to SME development. Dr. Richard Gordon was the principal contributor of the material on SME development.

Executive Summary

The purpose of this activity was to assess donor agencies' innovative agribusiness projects in a number of Sub-Saharan Africa (SSA) countries and to develop case studies of agribusiness firms targeted by or benefiting from these projects. The objective is to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.

The methodology used for this activity consisted of the following four basic steps: (Step 1) identify and select Key Focus (apparent high-opportunity) Areas for research based on current USAID interests and the anticipated potential to have a positive affect on agribusiness development. The four Key Focus Areas chosen, based on a literature review, interviews in Washington, and a field survey, were **non-traditional agricultural exports (NTAE) development, association development, small and medium enterprise (SME) development**, and **financial services to agribusiness**; (Step 2) select countries where there are projects, associations, and financial institutions that are relevant to activity objectives and the Key Focus Areas and that are sufficiently developed to yield lessons learned; (Step 3) complete a field trip to the selected countries to collect detailed information on the relevant projects and perform case studies on target beneficiaries, primarily via in-depth interviews with project, association, and financial intermediary managers, donor management, and selected beneficiaries; and (Step 4) analyze the information collected, extract lessons learned, and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

The entire *Innovative Approaches* activity has five components, and research findings are reported in separate volumes. Volume 3 covers East Africa (Kenya and Uganda), Volume 5 Southern Africa (Zimbabwe, Mozambique, and Tanzania), and Volume 4 West Africa (Ghana, Mali, and Senegal). There are also separate volumes reporting on the Secondary Research Findings (Volume 2) and Overall Project Summary and Conclusions (Volume 1).

While the Southern Africa research addressed all of the key focus areas of the *Innovative Approaches* activity, it placed special emphasis on SME development and NTAE development. Therefore, these topics are covered in more detail in this report.

SOUTHERN AFRICA FINDINGS SUMMARY– BY KEY FOCUS AREA

Non-Traditional Agricultural Exports Development

There is significant potential for non-traditional agricultural exports (NTAE) development in the countries included in this research. Opportunities in developed country (primarily the EU), second-tier (e.g., Singapore and the Middle East), and regional markets are currently being successfully developed by firms based in Southern Africa. While the developed country markets are very competitive and require tight cost and quality control, some of the other markets are less complex, and therefore, more available to smaller size firms. NTAE promotion also represents an opportunity for broad-based economic development and for increasing the access of the indigenous population to the commercial economy because, *under the right conditions*, indigenous smallholders and SMEs can successfully participate.

Development of NTAE is constrained by a lack of entrepreneurial equity/collateral, inadequate infrastructure (especially roads, airports, and communications), and poor organization (i.e., the lack of a clear understanding of the highest priority opportunities [products and markets] and the optimal strategies and structures for capitalizing on these opportunities).

Despite the opportunities offered by NTAE and the potential benefits, there is very little direct donor interest and support for NTAE development in the countries studied. There is some focus on the production aspects, and some support for medium- or small-size firms that happen to be in agribusiness, but nothing specifically targeted toward agribusiness or NTAE development. However, such programs are under consideration in Zimbabwe and Mozambique.

Donor activities designed to support and stimulate the development of NTAEs should consider the following components:

- NTAE *associations* can facilitate achieving scale economies by providing services such as technical assistance and in some cases implementing transactions (e.g., shared equipment, provision of inputs, and consolidation and marketing of output), and increasing "voice" to enhance the enabling environment.
- Both commercial (smaller firm to larger firm) and project (project management to larger firm) linkages with executives of successful larger NTAE companies will help develop SME managerial and business capabilities and assist project management to better understand the opportunities and challenges in the business
- A project must integrate financial (debt and equity), technical, and managerial services into a one-stop-shop concept that can address a firm's constraints in an orchestrated manner, otherwise the entrepreneur will have to visit several different sources with differing requirements, and/or one missing service will result in the others being less than optimally effective.
- Projects must identify and target the highest opportunity subsectors (e.g., in Mozambique and Tanzania this may involve rehabilitation or forward integration of an old/existing export business) and markets and pay particular attention to integrating indigenous firms into the business.

Monitoring and evaluation (M&E) for NTAE development projects should focus on the success of firms, associations, or other entities supported. National export statistics are often not a highly relevant measurement of project performance.

Small and Medium Enterprise Development

There is a strong need for agribusiness SME development in Southern Africa, especially in support of *indigenous* entrepreneurs. Agriculture accounts for a very large proportion of both employment and GDP in all three countries studies; therefore agribusinesses play an essential role in serving and stimulating production agriculture. SMEs often are the most responsive to changes that are taking place in the Southern Africa business environment. There is a strong need, therefore, to increase the role of indigenous people in the economies of the subject countries, but it will be difficult for them to do so without outside (donor) help, given government budget problems. The fact that most SMEs operate in the informal sector should not inhibit donors from providing them much needed assistance.

The most significant constraints Indigenous SMEs face are a shortage of management skills, particularly in marketing and cost control, and the lack of equity/collateral, especially in rural areas where valuation is difficult and there are land tenure problems.

There are quite a few donor programs for supporting commercial SMEs, but none of them offer the full range of services required by a fledgling ISME. They are not focused on agribusiness and none currently operate outside the capital cities. Therefore, the impact of these programs on agribusiness (the largest portion of the economy), employment, and the geographic areas with the greatest need, is minimal. There are PVO-supported rural microenterprise programs, but these represent more social than economic development. However, some of the PVOs (e.g., CARE) are beginning to help develop commercial ISMEs.

Donor activities designed to support and stimulate the development of ISMEs should consider the following components:

- An integrated services approach (as mentioned above for NTAE development) is necessary. This necessitates an extensive network of alliance partners who help to provide the broad range of services needed.

- Because an integrated approach is resource intensive, significant leveraging is necessary. This includes involving several donors who can contribute financial, technical, and managerial assistance. Extensive private sector input should be included in both project design and implementation, and local consultants should be developed so that they can competently provide services (particularly as related to marketing and cost control) on an ongoing basis.
- SME entrepreneurs need significant help to develop a highly functional business plan and to use that plan as the basis for an application for financing. Therefore, this service should be a part of the services offered.
- The project must provide close monitoring of and proper mentoring for clients, especially *after* financial assistance has been provided.
- It is unlikely that an entity that provides services to start-up and micro and small clients can ever become self-supporting, unless such an entity is an umbrella organization.

M&E for this type of project should focus on the financial success of clients, the number of clients assisted, the employment generated, and how well it is able to meet its own agreed budgets.

Association Development

Association development in Southern Africa offers considerable positive impact potential because associations can be an effective and efficient way to help indigenous small producers and ISMEs leverage support for development of subsectors opportunities. Successful associations will eventually become self-supporting.

The main constraints to association development success are: the legacy of former socialist governments' control of cooperatives in Mozambique and Tanzania, the tendency for producer-based associations to be concerned only with production issues, the low level of training (especially financial) and part-time status of most association management, members' lack of finance and financial viability, and difficulties association management has in determining members' priority needs and developing programs to effectively serve their highest priority needs.

Donor involvement in *agribusiness* association development is minimal in the three countries studied. EU donors support chambers of commerce, but these are usually composed of urban-based traders. USAID is considering support for reorganizing the Horticultural Promotion Council in Zimbabwe, and USAID supports The Business Center project in Tanzania, which helped an NTAE association get organized.

Donor activities designed to support and stimulate the development of agribusiness associations should consider the following components:

- Assistance to help determine the priority needs of members and potential members and to develop programs that serve a limited number of their *highest* priority needs.
- Help train association management in how to manage a sustainable association with a focus on sources and uses of funds, maintaining positive member relations, and effective lobbying.
- Encourage a vertically integrated structure that involves producers, packers/processors, exporters, and others to enable a greater number of members and better industry coordination.
- Assist the formation of a multilayer structure wherein small groups of producers form self-help groups, that belong to a subsector association, which in turn belongs to a sector association. This will enable donors to support the umbrella sector association, which in turn can support and develop the levels below it. The umbrella association can afford professional management and will have a greater "voice" due to the large number of members it represents.

M&E for association development projects should emphasize the membership-defined success (as defined by members) and progress toward sustainability of supported associations. The results of an annual membership satisfaction survey, conducted by a third party, should be one of the most important criteria for continued donor support of an association.

Financial Services to Agribusiness

Because the lack of access to financing is widely believed to be the greatest *initial* constraint to business formation and expansion for all but the largest firms, there is a major need for financial services to support ISMEs, especially in Tanzania and Mozambique where the financial sector is nearly nonfunctional (at least for SMEs). Without financing support the agribusiness sector will not develop in these countries and therefore the development of the agricultural sector will be inhibited.

The main constraints to agribusiness financing, according to the potential borrowers, are lack of equity/collateral (especially in rural areas), poor recordkeeping practices, inability to develop a viable business plan and proper financing application based on that plan, and missing types of needed financing such as trade credit or venture capital. Institutional constraints are a non-supportive legal environment, the high cost of experienced financing and fund managers versus the average size and volume of viable financing opportunities, the transaction and followup costs of small-scale financing, and the general shortage of investable projects (although there is not a shortage of *funds*).

Donor supported financing is fairly significant in Mozambique and Tanzania. EU donor microenterprise financing and World Bank SME financing are nearly the only formal sources available to those groups in Mozambique, and the World Bank SME program is about to lose its intermediaries since, once privatized, their loan practices will have to be dramataically altered. Donor-supported financial institutions in Tanzania are also the only sources of finance for micros and SMEs, but none of these institutions focus on agribusiness. The commercial financial sector in Zimbabwe is well developed, but it does not focus on agribusiness ISMEs.

Donor activities designed to support and stimulate the development of agribusiness financial services should consider the following components:

- Loan officer training to help them assess financing applications on bases other than the borrower’s balance sheet/collateral.
- Assistance for borrowers to develop viable business plans and financing applications based on those plans, and ways to enhance post-financing follow-up and support. This means providing management and technical services to clients.
- Creative and flexible products such as sweat and in-kind equity, income notes, convertible debt, and so forth.
- Group lending for small borrowers.
- Using existing successful institutions where possible.
- Provide multidonor support due to the minimum size project needed to afford top-quality management. Consider making managers responsible for multiple projects/funds in one country or regional projects/funds.

The M&E of financial services projects must be very commercially oriented (i.e., focused on asset growth and ROI/ROA).

Monitoring and Evaluation

There are opportunities to enhance the M&E of agribusiness projects or project components that support agribusiness development. However, more benefit would be derived from a greater focus on more effective design and implementation than on increased emphasis on formal M&E systems.

USAID agribusiness development projects most often have the objective of stimulating firm-level development over a usually rather short term (three to five years). That is insufficient time to have any significant effect on macro-level economic growth, employment, or even NTAE volume.

Fortunately, USAID projects are rarely implemented through government entities. Other donors, whose policy is to work through such agencies, have a very difficult time assessing the results of their efforts because the results are heavily dependent on the effectiveness of the agencies’ implementation, over which the donors have minimal control. This is especially true in countries where civil servants are grossly underpaid and must work two jobs and/or use their government position as a source of additional income.

The more effectively managed the organization, the more specific its M&E programs will be. M&E for agribusiness development projects must be *predominantly* focused on commercial measurements such as sales and earnings growth, net asset growth, and return on investment for *both* the development entity and its clients. M&E for donor-supported venture capital funds should be based on financial performance (the fund and that of its investments) as well as on the number of clients served and investments assessed. Over the long term, the ability to sell investments at an acceptable price will also be important. Group lending project M&E considerations should include: unit transaction costs, repayment rate, sustainability of the credit entity, growth in the capital base of entities, and the savings rate of members/clients.

Very few agribusiness projects have been able to develop effective M&E approaches that can isolate the effect of external variables such as drought or significant changes in the enabling environment or the market.

General Recommendations

An ongoing, formal, and SSA-wide information exchange should be established on agribusiness development lessons learned and the implications for USAID project/activity design and implementation. This would incorporate the experience of all SSA donors working in the area and could be initiated based on the findings of this *Innovative Approaches* activity.

Multidonor agribusiness development projects (especially if financing focused) should be explored especially where cooperatives are responsible for an area where they have extensive experience. Also, some PVOs (e.g., CARE in Zimbabwe and Mozambique) may be able to move beyond production agriculture and social development into serious economic development, and should therefore be considered as partners for agribusiness development projects, especially in rural areas.

Agribusiness development projects must be managed by individuals with considerable *successful* commercial agribusiness experience. Local staffing should take place from the highest positions downward so that as much local input as possible can be incorporated into the staffing process. All expatriate positions must have a local counterpart.

Country-level agribusiness opportunities that USAID should assist in supporting are an integrated services horticulture development center focused on ISMEs in Zimbabwe, a cashew and coconut rehabilitation project focused on the role of SMEs in Mozambique, and an integrated services, NTAE-focused Food and Agribusiness development Center located in the Arusha/Moshi area in Tanzania.

Key Issues

What is the best way to assess the feasibility of and, if feasible, to install a model of an integrated services, widely supported Agribusiness Development Center in Southern Africa, and where is the highest opportunity location?

Why do Tanzanian cashew producers receive a much higher portion of the export value per kg than do cashew producers in Mozambique, and how can the share going to the producer in Mozambique be increased?

What is the best way to determine the viability of and to develop highly leveraged (multidonor and extensively networked with the private sector) agribusiness projects (especially NTAE) in geographic areas that apparently have potential for a *broad-based*, positive impact?

How can the success, future prospects, and specific agreements of apparently functional outgrower and subcontractor schemes (e.g., in the Arusha/Moshi area) be further assessed?

How can the success of CARE's high-potential and very innovative "village trader" project in Zimbabwe be best monitored and evaluated by USAID?

Glossary of Acronyms and Abbreviations

ACP	African Caribbean and Pacific countries (of the Lome Convention)
AFC	Agricultural Finance Corporation
AMIS II	Agribusiness and Marketing Improvement Strategies Project II
APDF	Africa Project Development Facility
ARDA	Agricultural and Rural Development Authority (various)
ASC	Agribusiness Service Centers
BSBC	Barclay's Small Business Center
CARE	Care International in Zimbabwe
CDC	Commonwealth Development Corporation
CdZ	Companhia da Zambezia
CFU	Commercial Farmers Union
DANIDA	Danish International Development Authority
DM	Deutsche Mark
EDESA	Economic Development in Equatorial and Southern Africa Societe Anonyme
EIM	Equity Investment Management Ltd.
EU	European Union
FADC	Food and Agribusiness Development Centers
FAO	Food and Agricultural Organization
FAO/AgMin	Food and Agricultural Organization of the UN/Mozambique Ministry of Agriculture
GTZ	German Technical Assistance
HPC	Horticultural Promotion Council
ICFU	Indigenous Commercial Farmers Union
IDIL	Instituto Nacional de Desenvolvimento de Industria Local
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labor Organization
IRR	International Rate of Return
ISME	Indigenous small and medium enterprise

K-MAP	Kenya Management Assistance Program
LIBOR	London Interbank Offered Rate
M&E	Monitoring and Evaluation
NGO	Non-Government Organization
NTAE	Non-Traditional Agricultural Exports
OCA	Operational Constraints Analysis
ODA	Overseas Development Administration
PVO	Private Voluntary Organization
REDSO	Regional Economic Development Support Office of USAID
ROI	Return on Investment
SD/PSGE	Sustainable Development/Productive Sector Growth & Environment
SHG	Self-Help Group
SIDA	Swedish International Development Authority
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
TBC	The Business Center
TDFL	Tanzania Development Finance Limited
TVCF	Tanzania Venture Capital Fund
USAID	United States Agency for International Development
VCCZ	Venture Capital Company of Zimbabwe
WB	World Bank
ZED	Zimbabwe Enterprise Development Project
ZFU	Zimbabwe Farmers Union
ZimBank	Zimbabwe Banking Corporation Limited
ZIMMAN	Zimbabwe Manpower
ZimTrade	Zimbabwe Export Promotion Program
ZOPP	Zimbabwe Oil Press Project

1. General Introduction to the Eight Country Study

1.1 BACKGROUND

USAID Missions, and to a lesser extent other donors, are designing and implementing programs with the objective of developing more efficient agricultural product marketing systems. The Africa Bureau's *Agricultural Marketing and Agribusiness Development Strategic Framework* calls for examining marketing constraints and identifying ways to improve marketing efficiency. USAID does not yet have effective monitoring and evaluation mechanisms for recently established agribusiness development programs nor ways to disseminate the lessons learned from these innovative projects to Missions in other countries.

USAID's Africa Bureau therefore requested the Agribusiness and Marketing Improvement Strategies (AMIS II) project to carry out surveys of innovative agribusiness projects in a number of Sub-Saharan Africa (SSA) countries for the purpose of providing the Bureau and Field Missions with: (a) a compilation of lessons learned to assist in developing future marketing and agribusiness development activities and (b) an effective monitoring/evaluation mechanism for its present and future activities.

1.2 OBJECTIVE

"The objective of this research activity is to increase understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs that Missions are implementing, and to synthesize a cogent set of 'lessons learned'. In an era of scarce development resources it is primordial that design innovations and project successes be disseminated rapidly and replicated elsewhere. As agribusiness development projects have grown more complex, the need for monitoring and evaluation has risen accordingly. The research activity will focus on two categories of innovative programs to support agricultural marketing development: supporting services and institutions; and financial systems and services."[1]

1.3 ANALYTICAL ISSUES TO BE ADDRESSED

The research activity calls for the consultant to monitor in the targeted countries the impact of new and innovative programs implemented by any donor agency and to carry out case studies of agribusiness firms targeted by a project or benefiting from a project.

As called for in the Statement of Work referenced above, the major analytical issues to be addressed are:

1. What are the major constraints that the program or mechanism was designed to address?
2. What are the performance indicators to measure impact and how do they relate to the goal and purpose of the mechanism/project?
3. What has been the effect of the mechanism/project on private sector investment levels, export promotion, and people-level impacts?

1.4 THE AMIS II APPROACH TO AGRIBUSINESS DEVELOPMENT RESEARCH

The AMIS II Project was designed to provide USAID access to private sector commercial expertise that would help improve agribusiness marketing efficiency.

The major focus of the project is on stimulating *private sector led economic development*, not on enabling environment enhancement or social development. Although enabling environment enhancement/ social development is an important aspect of economic development, the AMIS II project addresses it only when it acts as a constraint to commercial development. AMIS II focuses primarily on the provision of inputs to production agriculture and all aspects of agriculture *after the farm gate*. The project does not look at production agriculture issues unless so dictated by market requirements. The project utilizes a *market led* or *demand pull* approach.

The AMIS II approach is to address agribusiness marketing efficiency improvement and agribusiness project impact measurement and evaluation from a commercial/analytical perspective. Thus the report is more prescriptive in nature and less descriptive than a typical USAID project report. In other words, it deals more with the "so what?" and less with the "what's so" of agribusiness development activities.

The principal authors of this report (Maxwell and Gordon) are first and foremost agribusiness operations and consulting professionals,with between them more than 50 years of international private sector food and agribusiness development experience, much of which was gained while living and working outside the United States. Most of this experience was in management positions with leading food, agribusiness, and agribusiness supply firms such as Beatrice Foods, ConAgra, Cargill, and Monsanto, and was focused on business expansion and market entry in developing countries. Dr. Gordon is currently Professor of Agribusiness Studies at the Arizona State University Centre for Agribusiness Policy Analysis. Jim Maxwell currently works for Cargill Technical Services, Cargill's Africa operations include fifteen agribusinesses located in eight different African countries.

The result of the above orientation is a presentation style that is not academic, but crisp, authoritative, and judgmental. It is based on the authors' intimate and extensive knowledge of agribusiness firm operations, investor/financier perspectives, and their significant business development/market entry consulting experience. Therefore, the presentation style used herein utilizes pointed observations and represents the best business judgment of highly experienced and successful practitioners.

1.5 METHODOLOGY

The methodology adopted by the AMIS II team for this activity consisted of the following steps:

1. Identify and select Key Focus (apparent high opportunity) Areas for research based on major areas of current USAID interest and the anticipated potential of a key focus area to positively affect agribusiness development. The four areas chosen, based on a literature review, interviews in Washington, and a field survey, were **Non-traditional Agricultural Export Development, Association Development, Small and Medium Enterprise Development,** and **Financial Services.** The first three fall into the category of "supporting services," as mentioned in project objectives (see section 1.2), while the fourth relates to the second category — financial systems and services.
2. Conduct a literature search on all identifiable USAID and other donor-supported agribusiness projects in SSA countries.
3. Based on (1) and (2) above, select the SSA countries that have agribusiness projects or activities, sponsored by any donor, that relate to the Key Focus Areas. Solicit USAID Mission support to work in those countries that have both relevant projects and activities and sizeable agribusiness sectors.
4. Arrange and complete an initial field trip to countries where USAID Missions invited the consultants to work, and that have apparently relevant agribusiness projects and activities being implemented. Collect additional information on the selected projects and on any others suggested by field personnel. Confirm Mission and REDSO-level Key Focus Area interest.
5. Screen the identified projects or activities and select those that have aspects relevant to project objectives and to the Key Focus Areas and that are sufficiently developed to *start* yielding lessons learned.
6. Arrange and complete a field trip to collect detailed information on the most relevant projects and do case studies on target beneficiaries, primarily via in-depth interviews with project managers, donor management, and beneficiaries.
7. Analyze the information collected, extract les-

sons learned, and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

8. Expand the geographic coverage and increase the depth of analysis in countries and Areas of Focus determined to be of high potential to USAID agribusiness activity design and implementation.

This Southern Africa report represents the addition of three countries and a particular focus on SME and NTAE development.

1.6 LIMITATIONS

Research was limited to the countries that responded positively to the SD/PSGE/PSD request for collaboration. The contractor invested considerable time obtaining permission from Missions to travel to their countries.

USAID has been the only donor interested in agribusiness development and this interest is quite recent. Therefore there are very few USAID projects with a sufficient track record for in-depth evaluation (i.e., any results are very short term in nature). Very recently, the World Bank and some German donor foundations have focused on private sector development, which often includes agribusinesses.

1.7 ORGANIZATION OF THE INNOVATIVE PROJECT REPORTS

The entire *Innovative Approaches* project had two phases. Phase I covered East Africa and Phase II added West Africa and Southern Africa, (this report), and three secondary literature studies.

Innovative Approaches research findings are reported in separate volumes for East Africa (Kenya and Uganda-[Volume 3]), Southern Africa (Zimbabwe, Mozambique, Tanzania-[Volume 5]), and West Africa (Ghana, Mali, and Senegal-[Volume 4]). There are separate reports on the Secondary Research Findings (Volume 2) and Overall Project Summary and Conclusions (Volume 1).

Each of the regional reports are organized as follows:

- Introduction
- Key Regional Findings (organized by the four areas of focus plus monitoring and evaluation, general recommendations, and issues deserving further study)
- Country-Specific Studies (separate chapters)
  - — Entities/Case Studies Selected
  - — Findings on Donor Projects
  - — Findings on Associations
  - — Findings on development Finance Organizations
  - — Findings on Private Agribusiness Firms
  - — Lessons Learned and Implications for USAID Planning
  - — Each of these sections is organized by the four Areas of Focus. There are also sections on Monitoring and Evaluation, General Recommendations, and Issues Deserving Further Study.

Findings on the larger projects and associations were analyzed based on the specific research questions listed in the Scope of Work. The research questions, as interpreted by the consultants, are as follows:

1. What project or activity objectives are relevant to the areas of focus chosen for study?
2. How are these aspects of the activity innovative?
3. What performance indicators were or are being used to monitor/measure impact of the activity?
4. How are external influences being managed?
5. How successful have the relevant interventions been?
6. What new agribusiness opportunities have resulted from the activity?
7. What monitoring and evaluation mechanisms, sys-

tems, and indicators can be suggested?

8. What relevant lessons can be learned from this activity? What mechanisms worked and did not work, and how could the impact be improved/ enhanced?

9. What are the relevant implications for USAID project design and implementation?

10. What new mechanisms or interventions can be suggested to increase the effectiveness of these projects or activities?

11. What indicators of project success can be suggested, and what is the best way to monitor those indicators?

12. What other useful information should be reported and what are the main unresolved issues?

2. Introduction to the Southern Africa Study

Individuals representing entities from a broad range of sizes and stage of participation in the food system were interviewed during the fieldwork in Zimbabwe, Mozambique, and Tanzania. A list of these individuals appears in Appendix D; the entities they represent are categorized in Table 2.1. With respect to this table, please note that:

- The focus of the AMIS II project is on quadrants V, VI, VIII, IX, and XI.
- In general, the viability of commercial entities decreases from the top right (III) to the bottom left (X) quadrant, with commercial, project, and association risks increasing (due to the vagaries of nature, lack of management capacity, and tighter margins) in a very similar manner.
- One objective of the *Innovative Approaches* activity is to identify, based on lessons learned, sustainable interventions that will make agribusiness ventures more viable and vibrant, particularly in quadrants V, VI, VIII, and IX. However, very few firms, projects, or associations were identified in quadrants VI and IX.
- Given the relatively undeveloped nature of the private sector in Mozambique and Tanzania, most projects are focused on quadrant X.

Table 2.1 Size Distribution and Focus of Firms, Associations, and Projects Evaluated

Enterprise Size	Production Agriculture	Agribusiness	High Value-Added Processing
Tier 1 > 100 full-time employees: *Established exporter*	Quadrant I **ZimBank (Z)**	<u>Quadrant II</u> **Interposto (M)** **Lomaco (M)** **Compania da Zambezia (M)** **Standard Chartered (T)** **Sluis (T)** *TISCO (T)* *APDF (Z)* **VCCZ (Z)** **Favco (Z)** **Selby (Z)** <u>CFU (Z)</u> <u>CTI (T)</u>	<u>Quadrant III</u> **Hortico (Z)** **Flair (Z)**
Tier 2a (SMEs) 10-100 full-time employees: *New exporters (or not exporting at all)*	<u>Quadrant IV</u> *World Bank/FAO (M)* *TechnoServe (T)* *SIDA (T)* *The Business Center (T)* *SAT (T)* **1st Adili (T)** *ZED (Z)* *ZIMMAN (Z)*	<u>Quadrant V</u> *IDIL (M)* *LAKE (T)* **Sun Flag (T)** ***Barkley's SBC (Z)*** <u>ICFU (Z)</u>	<u>Quadrant VI</u> **EDESA (Z)**
Tier 2b (SMEs) 10-100 full-time employees: *Established exporters*	<u>Quadrant VII</u> *ARDA (Z)* <u>TANEXA (T)</u>	<u>Quadrant VIII</u> *TDFL (T)* *TVCF (T)* *World Bank (Z)* *EU/Mashonaland (Z)* <u>HPC (Z)</u>	<u>Quadrant IX</u> *ZimTrade (Z)*
Tier 3 (MSEs) < 10 full-time employees *New or interested in exporting*	<u>Quadrant X</u> *CARE (M & Z)* <u>Agrarius (M)</u> *AgMin/FAO (M)* *World Vision (M)* *ATI (T & Z)* *NEVEPA (T)* *GTZ (T & Z)* *DANIDA (Z)* *AFC (Z)* *ZDB (Z)* <u>ZFU (Z)</u>	<u>Quadrant XI</u> **Gev's Flowers (Z)** **Hortpack (Z)** A&S Consultants (Z) *IDIL (T)*	<u>Quadrant XII</u>

Where: (M) Mozambique (T) Tanzania (Z) Zimbabwe

Firms are **boldfaced**; projects are in *italics*; associations are <u>underlined</u>. Classifications are based on the *majority* of the entity's focus.

3. Key Southern Africa Findings

This section presents the lessons learned and the implications to enhancing the design and implementation of USAID agribusiness development projects based on research and analysis in *all three* Southern Africa countries. Where appropriate, the lessons learned are categorized. All lessons learned discussed in this chapter are relevant to more than one case study and in many instances more than one country. The implications presented at the end of each section are based on the lessons learned from the entire Southern Africa study (i.e., not just those listed in this chapter).

Most of the lessons learned and implications are presented as brief statements with minimal support or explanation. More detailed information on the statements can be found in the profile of the case study from which the lesson learned was drawn and in the chapter on the country where the entity is located. The entity or entities most relevant to each lesson learned is shown in parentheses at the end of each lesson learned. Table 2.1 can be used to identify the country for each entity and section X.1 of each country chapter lists the full name of the entity. Refer to the Appendix Table of Contents for the location of the entity's profile.

The NTAE development and SME development Areas of Focus were of primary interests in the Southern Africa portion of the *Innovative Approaches* activity; therefore, these sections are the most developed in this report. Association development and Financial Services development Areas of Focus are presented on a survey basis. In all cases except NTAE development, agribusiness should precede the noted Area of Focus, (e.g., Agribusiness SME development).

3.1 NON-TRADITIONAL AGRICULTURAL EXPORT DEVELOPMENT

Non-Traditional Agricultural Exports (NTAEs) are well developed in Zimbabwe, but need to be redeveloped in Mozambique and are embryonic but growing rapidly in Tanzania. All three countries have substantial potential for NTAE development because they have a current or historical base of NTAE business and because growing conditions are above average for SSA, although water availability problems need to be resolved in Zimbabwe. There are no major enabling environment problems that cannot be overcome, but significant transport system–related (airports, roads, and ports) constraints exist in all three countries.

None of the countries have developed an *organized* and *integrated* approach to NTAE development, even though agriculture represents a significant portion of GDP and employment, and additional sources of foreign exchange and employment are badly needed. The Horticultural Promotion Council in Zimbabwe is currently being restructured to make it more responsive to the interests of smaller participants. Despite numerous private enterprise–based efforts to involve indigenous small and medium enterprises (Indigenous SMEs) in the production, packaging/processing, and marketing of NTAEs in Zimbabwe, the business is still dominated by large commercial (white) farmers and companies controlled by them. This situation must be resolved to achieve economic and political stability.

In Mozambique, rehabilitation of its once large cashew and coconut businesses is as important for its economy as is the development of shrimp aquaculture and value-added processing. Tanzania has significant potential for producing specialty NTAEs, especially in the Arusha/Moshi area.

Lessons Learned

Market Related

- More than 50 percent of the imported vegetables sold in the European Union (EU) are imported by wholesalers for resale to large supermarket chains.
- Successful participation in this large NTAE busi-

ness requires strict quality control, large-scale operations, and close linkages with the big EU importers and retail packaging at the site of product origin.

- EU horticulture and floriculture markets will continue to be well supplied; only those competitors with high quality, high yields, a consistent supply, and low labor and transport costs will survive. (WB)
- Because transportation costs are a significant proportion of the total for NTAEs (30–40% of the landed price), air freight, and to a lesser extent sea freight, costs must be very competitive. For air freight, this is significantly dependent on passenger traffic volume. (WB)

Although the EU is a large market for NTAEs, there also are viable regional NTAE markets and other non-African NTAE markets such as the Middle East and Singapore. (Favco)

Constraints Related

- Two major constraints to NTAE development are the *shortage of entrepreneur working capital* and the *poor transportation system*.
- Other important constraints to export development in general, and to NTAE specifically, are poor performance (e.g., long delays) of the customs service, inadequate and inconsistent enforcement of tax laws, and excessive customs duties on inputs that are to be re-exported.
- For Indigenous SMEs, a shortage of high-quality planting materials and other input supply inadequacies, as well as a very limited domestic market for off-specification production, constrain the development of NTAE businesses. (CTI/SIDA/WB)

Successful Indigenous SME export horticulture development requires the following:

- A large number of well organized producers in a small geographic area with access to irrigation
- Cold storage units at collection points to remove field heat and store the produce
- Producer-owned transport/collection system
- Readily available qualified TA, primarily as related to quality control
- Access to a good communications system
- Focus on higher value products
- Shared production-related equipment such as sprayers
- Access to a local fresh or processed market for off-grade product and overproduction (Hortico)

Linkages Related

- When locals producers are risk averse and inexperienced in NTAE production and marketing, the best way for them to develop is via *outgrower or subcontractor relationships* with large, experienced firms. (NEVEPA)
- There is considerable misunderstanding and distrust on the part of small producers concerning the price that packers or exporters pay for produce, especially as related to product grade-out and the appropriate price for the various terms of sale (e.g., FOB factory versus field pick-up, COD versus consignment, and TA provided versus no TA). Price transparency is important to maintain a credible relationship between small producers and big exporters. (ZFU/Selby)
- Large agribusiness firms *may find it easier to establish their own production* in developing countries when technological advances enable intensive, commercial agriculture, rather than to develop and manage outgrower arrangements. (CdZ)
- Indigenous SMEs will be best able to participate in higher value NTAE business if they share expensive fixed assets and consolidate their output and marketing efforts. Chances for the financial success of marketing projects involving small-scale producers would be improved if there were a joint packer/small farmer–owned center in a growing area that was responsible for land preparation, spraying, TA, output consolidation, cold storage, and transport. (WB/Mashonaland/Hortico)
- Due to high interest costs, it is difficult to use extensive debt to finance new NTAE businesses that are not fully integrated; that is, can capture

most of the margins available between the producer and the consumer. (ZimBank)

Project Development Related

- Innovative business propositions by entrepreneurs with an intimate knowledge of locally available raw materials and a reasonable understanding of international markets deserve further evaluation, especially when they can have a significant broad-based local impact. (Sun Flag/Sluis)
- A large up-front investment and significant ongoing operating costs are needed for a broad-based export promotion and information service.
- Because government funding is unreliable, a small surcharge on imports and exports is a good way to fund an export development entity. (ZimTrade)
- Low literacy significantly increases the cost of training farmers and NTAE processing facility employees, making it difficult to operate and maintain these facilities. (Lomaco)

Implications

Before providing support to an NTAE association, donors must determine how much export experience association members have, their export opportunities and potential, the status of the export-related enabling environment, the extent to which association organizers and leadership understand members' priority needs and have viable programs to serve these needs, and the quality of association management.

Because support to Indigenous SMEs for NTAE development requires considerable, *diversified,* and ongoing "hands-on" assistance, an institution that offers the necessary *integrated* (finance, TA, and management) services (e.g., a horticultural development center) is needed, especially one that has the support of the larger exporting firms.

When an NTAE development project is mature enough for project management to understand which subsectors have the *best* potential to support their objectives, managers should have the flexibility to target some of their resources on these sectors.

Developing local counterparts through the effective transfer of project/activity know-how from foreign advisors to locals is *essential* for project sustainability and must be a key component of all projects.

NTAE projects with Indigenous SMEs as the primary beneficiary should include services that help Indigenous SMEs *join together* to:

- Share expensive fixed assets.
- Purchase inputs jointly.
- Consolidate output, at least at the local level.
- Establish linkages with larger exporters to market their output.
- Negotiate subcontractor or outgrower relationships, especially for lower technology/higher labor requirement products.

This type of project also must ensure that when large exporters are buying from small producers or their representatives (e.g., an SHG), or from SME middlemen/wholesalers, all participants understand the basis for establishing prices and terms. This may require donor assistance for communication materials and meetings to explain the basis for pricing and the different terms, as well as to determine how price setting can be made transparent on an ongoing basis.

Projects should investigate, and where viable develop, the less difficult to serve regional and medium size (e.g., Singapore and the Middle East) export market opportunities, especially for Indigenous SME exporters. Also, local markets should be assessed for their potential as outlets for off-specification and excess production so that at least some value is recovered for *all* production.

Sources for working capital and reasonable cost debt should be made available to NTAE project beneficiaries, either by the project itself or from members of the project's support network and/or cooperators. Financial services are especially important for Indigenous SMEs, and reasonable cost debt is very useful for non-integrated entities, since they are capturing a limited amount of the total available margin on a product, and for firms that are not directly exporting and therefore do not have access to debt at offshore rates.

Two very important enabling environment components that NTAE projects should focus on are:

- Transportation, both domestic roads and ports/airports as well as freight rates, especially air freight; helping the government stimulate tourist/passenger traffic, deregulate the air cargo business, and maintain low refueling and airport landing fees, which will stimulate air freight availability and help keep rates competitive.
- Optimization and proper enforcement of customs activities, including quick clearance of outbound goods and low/no duties on imported raw materials that are used to produce goods that are reexported.

Donor involvement in a major agribusiness export promotion project will require substantial funding, a long-term commitment, and the development of alternative sources of funding (e.g., a cess on imports and/or exports). The size of commitment needed means that multidonor support may be required. Support by donors from countries that are the target market for some of the exports would be very helpful.

A donor-supported mechanism is needed to finance, most likely on a matching grant basis (which would be recoverable if the project became successful), the assessment of broad-based benefit NTAE propositions developed by successful local agribusiness entrepreneurs. A mechanism should also be developed to tap the experience of the few successful NTAE entrepreneurs in a given geographic area, and with their help determine how to accelerate the rate of NTAE development in that area.

Rehabilitation of NTAE industries (e.g., the cashew and coconut industries in Mozambique) that were once quite large will be very costly and require joint and well-coordinated efforts by donors, the government, private sector participants, and producers.

3.2 INDIGENOUS SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

3.2.1 Overview

Reforms being undertaken by the governments of Zimbabwe, Mozambique, and Tanzania have been self-absorbing to a large degree; that is, occupying all government attention to the exclusion of most other activities.

While governments are thus preoccupied, local financial institutions (originally government owned) are in various stages of slow restructuring, due largely to pressure from donors and the World Bank. These financial institutions, especially the domestic banks, have little or no liquidity and many, if not most, are technically insolvent. If lending at all, they are almost certainly *not lending* to food and agribusiness Indigenous SMEs. While business lending centers are being established in some of the major urban centers in the three countries visited, there are only nascent plans to do the same at population growth centers in rural areas.

Institutional lending to agriculture-related firms is complicated and constrained also by continuing shifts in land ownership and tenure policies. Even in Zimbabwe, with its tradition of large (white) landholdings, the problem of furnishing credit to communally owned land is still a problem (which the World Bank plans to address). Access to land, determination of its value, and the livelihood that can be derived from it, are crucial issues that must be addressed in each of the three countries.

An unexpected finding from recent fieldwork is that the preoccupation of national governments with donor-mandated reforms has inadvertently created genuine opportunities for entrepreneurship. Concerns that the regimes would have had with private enterprise in former years now pale before the demands of international donor groups. Consequently, private sector initiatives are alive and well. Further, where donors have consulted with each other and with the more entrepreneurial elements of the business community (particularly in Tanzania and Zimbabwe), the climate is quite favorable for accelerating the start-up and development of Indigenous SMEs.

Certain constraints to Indigenous SME development, however, apply across the board:

1. There is no focus on integrated food and agribusiness Indigenous SME development per se.
2. The lack of knowledge of modern management techniques and the lack of integrated marketing,

financial, and technological services to attain specific business objectives is a very large Indigenous SME development constraints.

3. The World Bank and many donors are required to work through government agencies or institutions, which in many cases (especially in Mozambique and Tanzania) such services are not effectively available.

Complete privatization could have one drawback in that there will be a need for “government endorsement” or for donor funds to be channeled directly through a government vehicle. It is not clear how these privatized and commercialized institutions will be regarded by the World Bank and other agencies that traditionally work through governmental structures.

In Mozambique, there is a government-owned development company (IDIL) that the World Bank, SIDA, and other EU donors are using as a vehicle to evaluate and recommend entrepreneurs for funding via state-owned and private commercial banks. However, this approach is not working particularly well for two reasons. First, because neither the apex unit at the Bank of Mozambique, the state-owned banks, nor IDIL, are seriously screening projects and there has been no serious effort to pursue nonperforming loans; and this results in default rates near 80 percent on WB-funded SME loans. Second, private banks lend only to customers they know well, which usually does not include new or growing Indigenous SMEs.

As governments reduce their holdings in and control of large parastatal agribusiness firms, they pay little attention to the entrepreneurial ventures that need to take the place of the parastatals. Where donors are sponsoring private sector initiatives, there is very little, if any, direct participation by government-controlled entities. Therefore, as is pointed out in each country summary, there are many private sector development approaches that can be pursued independently of the governments’ activities.

3.2.2 Findings[2]

Facilitating Integrated Indigenous SME Agribusiness Development

For example, a review of past projects (Gordon and Shaffer) indicated USAID has added business incubation projects to various programs, but these projects are not far enough along for their results to be evaluated. It has been found that when a venture capital approach to equity funding is taken, the results have been disappointing (Fox, J.W.), and this approach has been especially true in developing countries. The literature suggests several reasons for the inappropriateness of venture capital at the start up for most businesses, among which are:

1. The requirement that the entrepreneur give up both management control and majority ownership when the venture has high risk or less than spectacular payoff possibilities and entrepreneurs typically are not willing to relinquish control.
2. Most enterprises in their early stages of development need tighter day-to-day oversight and financial control than is provided by venture capital management or donor staff.
3. The funding required by an individual SME for start-up or expansion is typically much lower than the amount of investment made in any one firm by venture capital funds.
4. The approach of donor organizations can be quite antithetical to the way venture capital managers analyze enterprise potential. Often donor organizations, assuming that entrepreneurs are competent and accountable, have exercised lax oversight, with the result that by the time they learn that an enterprise is in trouble, it is too late to intervene and help the enterprise back to health. Most enterprises in their early stages of development need tighter day-to-day oversight and financial control than is provided by venture capital management or donor staff. This is particularly true with inexperienced entrepreneurs and in areas where communication is difficult. Business incubators/development centers can provide such day-to-day oversight and control, while at the

same time providing technical assistance and training.

5. The funding required by an individual SME for start-up or expansion is typically much lower than the amount of investment made in any one firm by venture capital funds. Further, venture capital funds traditionally do not fund start-ups. Business incubators or development centers, however, are well situated to provide small-scale funding in the form of "seed capital" or "bootstrap loans" to the SMEs they are assisting.

Fox's findings certainly apply to private sector development projects in developing countries sponsored by USAID and many other donors. Reasons for this include the following:

1. Donors often do not exercise enough control over sponsored enterprises to ensure that they hire appropriate and qualified staff,

2. Career donor agency staff usually lack private sector business experience and do not have the expertise to evaluate the proposed enterprise's staff and business plan,

3. USAID has difficulty with a five-year horizon, let alone the up to ten years that enterprise funds and many venture capital operations may require to demonstrate unequivocal "success."

The secret of success for incubators/development centers is that they deal with these well-known problems head-on by employing the following guidelines:

a. Where possible they obtain financial, legal, and other support services (often pro bono in the United States), pooling them in a common facility or operation. This approach, in fact, is being incorporated in the British-sponsored LAKE project in Tanzania.

b. Enterprises are given a very short rein from initial feasibility exploration until they reach profitability. They are held to objectively measurable, performance milestones expressed in terms of time, budgets, output, sales, and so on, which, if not achieved, can terminate any funding commitment. Thus, enterprises are judged strictly on a business development or commercial basis because that is the basis on which they will succeed or fail.

c. Because business incubators/development centers are usually part of a broader local, regional, or national economic development plan, their long-term objectives are usually to achieve a break-even point (where revenues are equal to operating costs) within a five-year period. Their goal is to become self-sustaining through positive cash flow received from rents, royalties, licenses, a spread on loans, and modest sales of small equity holdings in the supported ventures. This is in contrast to the traditional venture capital objective of realizing an average 30-percent annual return on investment from a portfolio of new enterprises.

d. Investors in business incubators/development centers usually have broader objectives and are more patient than venture capital investors. For example, the former are often benevolent donors (foundations, major banks, and local or national governments) interested in the overall, long-term economic development of an area, region, or country. Their support typically consist of grants and seed capital funding. Other such investors include companies (including venture capital firms) interested in observing a development center's operations, usually with an eye toward contracting with or investing in promising individual enterprises as appropriate; and government pension funds, whose investments may be carefully limited to not more than 4-5 percent of total investable assets. Funds may make such investments in part to stimulate local economic development and employment.

e. Management of an incubator/development center is vested in at least one senior *experienced* individual, with a distinguished business record, who maintains *day-to-day* operational oversight of each venture. This person is also responsible for analysis of entrepreneurial proposals and recommends enterprises he thinks worthy of support to the board or funding committee of their incubator/development center.

f. Entrepreneurs are notoriously independent and self-opinionated, rarely recognizing or acknowledging when they have failed to put together a credible management team or practicable business plan. The incubator/development center management is expected to work step-wise with each entrepreneur, helping them develop an investable plan, a balanced management team, and sustainable operations.

All enterprises, whether starting up or expanding, require a "package" of business services that consists of both long- and short-term debt, equity, and managerial services tailored to fit that specific venture. Some effort should be expended to determine if the Southern Africa Enterprise development Fund and the several bureaus with access to USAID loan guarantees could collaborate with Missions' TA/management assistance programs and deal with African projects from a common point of view. This would involve delivering these Indigenous SME business development services in a highly integrated manner and as appropriate for each individual venture. Ideally, a common staff directorate could be developed so that enterprise evaluation and funding could be coordinated through, if not actually integrated into, one decision making process.

3.2.3 General Observations

1. Indigenous SME development projects move fastest when donors work together, pooling their resources and agreeing on common procedures. Such donor coordination means that applicants must satisfy only one set of requirements (i.e., fill out only one set of forms). While all donor agencies must be accountable for their own resources, they must not encumber the enterprises they assist with "home port" criteria. Whatever the individual donor requirements, jointly funded projects must have *one* set of performance criteria that all donors agree to use.

2. Given the situation in the three countries, donors should also work together to enhance and facilitate communications between the government and the private sector. In addition, a united position by the donors will be useful when donors must protect their funded agencies or projects from governmental inaction, interference, or thoughtless rule-making.

3.2.4 Other Indigenous SME Development Findings

Lessons Learned

Market Related

Domestic supply/demand balancing opportunities should be thoroughly investigated, especially the potential role of indigenous SMEs therein. (A&S)

Constraints Related

Entrepreneurs' and managers' lack of experience and lack of management training are major constraints in the early stages of private sector development, especially to SMEs. These constraints are usually more significant than technical skill shortages and make it very difficult for an entrepreneur to manage a business in a way that enables repayment of financing. (StanChart/TechnoServe/ZIMMAN/TBC)

Many donors view very limited equity availability and undercapitalization as the major constraint to SME development. However, inadequate infrastructure (especially power, telephones, and roads), high duties on imports of processing inputs, lack of access to finance (to pay for needed imports), poor local business services and input supplies (especially packaging), and competition from imports that often come in without duties are also important constraints to SME development. (LAKE/Sluis/World Bank)

Project Development Related

Microenterprises, SMEs, and even local government entities find it difficult to pay for the full cost of business advisory services, especially those where the provider is not able to leverage expensive staff. (TechnoServe)

Micro and SME development programs managed by indigenous people can succeed, even in very difficult environments, if they are properly managed and if donor relations so that the programs are carefully handled, are not perceived as a threat to the government. (IDIL)

Implications

If SME entrepreneurs must work with several different institutions rather than with one institution to obtain their business support needs (e.g., financing, TA and managerial advice), the burden on them is much greater, paperwork much more complicated, and coordination problems (e.g., inconsistent requirements) much more likely. Therefore, a fully integrated (financing, TA and management assistance) project is needed.

In environments where there are very few successful private sector enterprises to use as models, SME development programs that links new entrants to the few successful enterprises will increase the rate of SME development by creating more models and mentors. This would include subcontracting relationships and other very localized SME development activities sponsored by successful large private sector firms. There is also a significant need to enhance the cost competitiveness enhancement, possibly via training or mentoring by successful entrepreneurs. Without donor assistance, achieving significant tonnage sales via SME linkages/outgrower schemes will be achieved.

Projects that effectively and successfully support clients, especially SMEs, at a reasonable cost may have difficulty "graduating" these clients as their business services needs expand along with their companies and they face new challenges. Turning these more developed clients over to qualified local consultants would enable the project to expand its coverage and reach, (i.e., serve new, younger SME clients). However, the more developed the client, especially if they are exporting, the more sophisticated their consulting needs, and local consultants in these environments are unaccustomed to providing pragmatic business services, especially regarding ongoing operations. Therefore, a donor can effectively leverage its resources in these circumstances by developing local business consulting capacity. Local consultant training should be an ongoing component of SME development projects.

An institution that helps entrepreneurs prepare a financing proposal and then operate their businesses in a manner that ensures financing repayment/increasing share values will make a significant contribution toward stimulating more new SMEs and the growth of existing enterprises. Therefore, there is a strong need for USAID to sponsor an activity to help develop and package proposals and business plans for entrepreneurs seeking financing. This coulities interested in providing this service, possibly modeled after USAID-supported training provided to Africa Development Bank (AfDB) new private sector development unit officers. Donor-provided special funds to help SMEs apply for equity investment and to develop local business services capacity represents a partially integrated approach to SME development.

For donor-supported projects where SMEs are to be the beneficiaries, it is likely that financing will have to be provided at a preferential rate and that fund management costs will have to be subsidized, because serious "hands-on" management support of the investments, both pre- and post-financing, will be needed.

There is a unique opportunity to help establish SMEs shortly after a change from socialism and parastatal-managed marketing to a private enterprise based economy. However, "supported" training programs are needed to help entrepreneurs develop their management and financial skills beyond the limited scope of their former positions, especially in economies emerging from parastatal control of agribusiness.

3.2.5 Conclusions

Lessons learned and implications of this initial research in the three countries are indicated in the individual country chapters. The following are highlighted as *priorities* that emerged from all three of the countries:

1. *Building on and/or Collaborating with Established Private Sector Development Entities*
   a. *IDIL*. USAID in Mozambique should be able to persuade present donors to give IDIL responsibility for both operational and funding oversight, *including* equity investment of an agribusiness development center. Certainly the Southern Africa Enterprise development Fund (SAEDF) should explore using IDIL to

screen enterprises in which it is considering investing.

b. *The Venture Capital Funds in Tanzania and Zimbabwe* are tightly controlled by their boards and donors. USAID and SAEDF should consider involvement with these operations and thereby gain additional experience in private sector financial services facilitation. Other partners and facilities are available to work within support of SME development projects in all three countries (e.g., the World Bank, which has a substantial private sector investment fund needing near-term placement).

2. *Facilitation of Large Processor Indigenous SME Linkage Projects*. In Zimbabwe, two of the largest processing companies (Hortico and Selby's) are actively working with small growers to develop new sources of higher value, non-traditional food exports. Donor support could accelerate establishment of subcontractor arrangements by both new landowners and communal producers by providing extension personnel, cold storage, and trucks. In Mozambique, where the private sector is just reviving after the long war, the USAID Mission has already provided funds to a cashew processor, who in turn made available to small growers cashew trees to replace those damaged by the war or by a recent devastating hurricane. A large coconut grower and processor would also like to develop, in collaboration with smallholders and present plantation employees, a wood harvesting and processing enterprise to reclaim land (cut down the old trees) for new planting. There are likely to be more projects like these in both countries. More specific investigation should be undertaken and plans of action formulated with the local Missions to capitalize on these opportunities to enhance links between large firms and Indigenous SME agribusinesses.

3. *Lack of Entrepreneurial Orientation and "Knowledge of Business" Gap*. One theme that recurs throughout this report regarding constraints is that conversion of each economic sector to one focused on markets and private enterprises cannot be ordered from above. This attitude change can be influenced with customized management training. Donors must determine how to help focus management training on specific high-opportunity ventures. It is the experience of incubator and FADC management everywhere that the more specific the training to the entrepreneur's enterprise, the more successful it is. Further, broader principles are then more easily grasped.

4. *Selection of NGOs and Appropriate Projects*. In Zimbabwe and Mozambique, CARE and one or two other NGOs appear to be operating quite effectively. For example, in both countries, CARE is developing self-help programs that involve both communal cooperation and pay-as-you-go operations. CARE also is interested in promoting private, rural development, and with USAID support and AMIS II participation agribusiness development programs could be established with these NGOs to assist start-up indigenous SMEs in such areas as further processing and distribution of local production and improved inputs (e.g., seed). The selection of an NGO in which the USAID Mission has confidence, and further discussion with them of the various options, would be a logical first step.[3]

3.3 ASSOCIATION DEVELOPMENT

The development of associations (often called unions) in Zimbabwe is quite advanced, but tends to be very producer based. Difficulties perceived by smaller producers of the large commercial farmer (white) dominated and very powerful Commercial Farmers Union (CFU and the Horticultural Promotion Council HPC that it supports), which serves a broad base of agriculture and agribusiness interests has led to the formation of unions with narrower interests. HPC is now being reorganized outside of the CFU in an attempt to structure it so that it can serve the needs of the entire horticulture industry. The success of this undertaking will be interesting to assess.

Associations in Mozambique and Tanzania are very undeveloped, but there is a substantial need and potential. However, the negative attitude toward association-type entities, caused by the involvement in and control of cooperatives by former socialist governments, will have to be overcome.

Effective donor support for agribusiness association reorganization and sustenance in Zimbabwe, and for association development targeted on high-opportunity agribusiness subsectors in Mozambique and Tanzania, are high-impact opportunities. The latter is especially true if NTAE- focused, vertically integrated associations can be developed to pursue these opportunities.

Lessons Learned

Past problems with government control of cooperatives makes it difficult to organize producer-based associations. Also, members of *producer*-based NTAE associations tend to want to focus on production and not to bother with processing, marketing, or other nonproduction functions. Producer-owned marketing entities/associations *can* be very successful international marketing organizations. The key to their success is the professionalism and quality of management and the competitiveness of members. Producer associations can even develop in difficult economic and political environments. However, the ability of producer-based associations to provide members with the needed production, and especially postharvest, services will likely depend on *outside* support. (Sluis/TANEXA/Flair/Agrarius)

It is very difficult for Indigenous SME exporters to gather the technical and market information needed for successful development of NTAEs. Grouping themselves into associations makes this much easier. (TANEXA)

Leadership and financial training are very important for association management. (Mashonaland)

New associations must achieve a detailed understanding of members' priority needs and develop highly efficient programs to serve the *highest* priority needs. Because of limited resources, new associations must focus on a *few, high-positive-impact* member services. (Agrarius)

NTAE association group lending schemes often do not require large amounts of capital because members' export volume is usually quite modest. Proper cash management techniques will help reduce the amount of working capital required. (TANEXA)

Implications

Donor support for integrated producer/packer/exporter associations seems to be a viable way to overcome the tendency for producers to focus only on production-related functions. This support should also help exporters gather the technical and market information needed for successful development of NTAEs, and provide association leadership with management and financial training.

A well-organized and well-managed multi-association structure, with an umbrella association as its apex unit, can improve the performance of associations and significantly enhance association development project leveraging.

Donor support to new associations should focus on helping association leadership achieve a detailed understanding of members' priority needs and develop highly efficient programs to serve a limited number of the *highest* priority needs.

Association-sponsored and donorsupported group lending is a viable way to overcome members' substantial financing constraints. This can be accomplished with a relatively small amount of funding or guarantees, but the sponsoring donor must help the association management develop and administer the group lending program, especially follow-up on borrowers.

3.4 FINANCIAL SERVICES DEVELOPMENT

The financial sectors in Mozambique and Tanzania have current account and balance-of-payments problems. While the financial sector in Zimbabwe is well developed and diversified, offering specialized financing, venture capital, and special Indigenous SME sources, drought and borrowing by the GOZ have caused balance sheet and high debt-to-equity ratio problems at the firm level, and high inflation and interest, as well as a credit squeeze, at the macro level. The financial sectors in Mozambique and Tanzania are so weak that they offer little potential for agribusiness finance, except for the largest international firms. In Mozambique there are almost no sources of formal finance for SMEs. The situation in Tanzania is better due to innovative projects by donors, specifically TDFL, TVCF, and the new RMPS fund. In fact, donors' efforts in Tanzania should be a useful model for what is needed in Mozambique, especially because (a) the only two state banks that were lending to (but not collecting from) SMEs are being privatized, and (b) considerable financing assistance will be needed to rehabilitate the coconut, cashew, and other agribusiness subsectors, and to support the participation of MSEs therein.

Lessons Learned

Constraint Related

Lack of entrepreneurial experience and equity, poor bookkeeping practices, and the lack of know-how to develop satisfactory financing proposals and the associated business plans are major constraints to financing agribusiness SME ventures; and these limit the ability of donors to disburse development finance to these firms. (TDFL/WB)

Difficulty identifying investable projects, not the lack of finance, is the major constraint to donor-supported financial services projects focused on SME development; that is, the lack of investable ideas is a greater constraint than the lack of available financing. (TDFL/VCCZ)

The lack of debt financing and entrepreneur equity are both important constraints to the success of *venture capital* projects. Other important factors that limit a venture capital fund's ability to invest its available resources include entrepreneurs' lack of familiarity and comfort with the concept of venture capital, inadequate record-keeping practices, the unavailability of buyers for shares of firms the fund has invested in, and restrictions the fund may have on client size, business sector, or owner nationality. (TVCF/SAT)

Lack of trade finance is a very common private sector agribusiness development constraint in economies emerging from socialist systems. (WB)

Operations Related

Financial service organizations working with *larger* borrowers (e.g., APDF) can afford to carry out more complete feasibility studies, have less difficulty sourcing funds, and incur lower transaction costs as a percentage of financing value. (LAKE/APDF/TBC)

Loan officer knowledge of the geographic area, the references of the borrower, and the business being financed is essential for financing provided on bases other than collateral. Lending on criteria other than collateral also requires specially trained loan officers, preferably with an intimate knowledge of the market they are serving. This neighborhood networking approach for screening small loan applicants works, and can be especially effective in rural areas where everybody knows everybody. (BSBC)

Professional management and a very clear focus on asset growth and return on investment will have a very positive impact on economic development projects, even without subsidies or grant-based assistance. (EDESA)

Checking the veracity of project proposals, especially as related to market share assumptions and the marketing plan, and hands-on mentoring and oversight management *after* financing are critical to the success of an investment, particularly in rural areas and in agribusiness. (VCCZ)

Financial development projects that require the borrower to have a low debt-to-equity ratio will find few investable projects available in private sectors that are in the early stages of development. Convertible debt and income notes, along with loan officers who have a good understanding of the applicant's business, will help reduce this constraint. (TVCF)

Loans granted through state-owned banks, even when commercially oriented entities perform the feasibility studies, are often not repaid due to borrower and bank management *attitude problems* regarding the need to repay government-related debt (i.e., the prevailing attitude that if the loan came from the government or a donor it does not need to be repaid). (World Bank)

Implications

Because equity/collateral limitations are the major *initial* constraint to both micro and Indigenous SME formation in emerging private sectors, projects that allow sweat equity (equity credit for labor) and in-kind contributions to equity by entrepreneurs will help offset this constraint, although they cannot eliminate it. Government guarantees for initial entrepreneur equity may be a source of assistance, but if such assistance is provided it must be closely monitored by project management to make sure the borrower understands that the loan *must* be repaid, unlike, in the past, when financing provided by the government was not repaid.

High-quality management and support from a donor who is *experienced* with business development and finance in developing countries will make a major contribution to the success of a venture capital project. New venture capital projects should investigate the experience of other USAID venture capital projects in SSA before finalizing a design.

The management team of a financial services entity needs to be involved with either a large single fund/institution or several funds/institutions to spread the high cost of their services and keep the cost from being a burden on any one project. Given the cost of high-quality fund managers, a regional fund (debt and equity) would enable better leveraging of management.

Financial services alone will not stimulate economic development as much as *integrated* financial, managerial, and technical assistance. Therefore, while reasonable availability of funds will stimulate micro and Indigenous SME *formation*, TA and management assistance will be needed for them to be successful.

For optimal effectiveness and efficiency as well as for making the most rapid progress, *existing*, well-managed financial intermediaries with a good track record (when they are available) should be used for new private sector development programs.

Cooperation among donor-supported debt providers (e.g., TDFL), equity providers (e.g., TVCF), and TA projects (e.g., TBC) with similar objectives would prove beneficial and should be pursued by donor-supported financial services projects.

Keeping smallholder transaction costs low and repayment ratios high is difficult even for well-managed institutions. Group lending via intermediaries (such as NGOs) appears to be one way to control these costs. For group lending, the optimal group size range is 10 to 25 members. Group lending can also help overcome collateral problems based on communal land ownership. Community-based group lending programs are an alternative to local traders' control of commerce, cash flow, and informal lending (i.e., where the local trader extends credit for daily necessities and it is repaid from the farmers harvest). Group lending projects to be successful in societies evolving from socialist models, however, will require much education and training.

All credit projects should include a savings component as a means to generate funds for future loans.

3.5 MONITORING AND EVALUATION

In general, USAID places much more emphasis on formal M&E systems than do other donors. That portion of other donors' support that is intended to improve a country's balance of payments is coordinated with other donors and the World Bank and uses progress on conditions precedent as an impact measurement. However, it is unusual for other donors' projects and project-related activities to use macroeconomic measurements to assess the impact. Progress on the project objectives is usually assessed on at least an annual basis, but not necessarily using extensive quantitative measurements. Rather, considerations such as the satisfaction level of the beneficiaries and government entities involved play an important role.

Lessons Learned

Agribusiness Project Related

Separating an agricultural bank's development activities from its commercial activities will facilitate better monitoring and evaluation of the development activities. In addition, it will be easier for donors to work with the new development-focused entity they will have very similar objectives. (ARDA)

Project Development Related

Project M&E must be basic and simple. It must establish the starting point/baseline and produce monthly accounts of progress versus budget for assisted clients. Collection of social benefits and secondary information is usually not cost effective, but some balance between quantitative and qualitative information can be achieved. (TechnoServe)

Microenterprise Related

The M&E used by most local PVOs involved in MSE financing projects is informal, but includes the number of proposals screened, number recommended for funding, amount of funding approved, the success of funded enterprises, and the continued satisfaction of and support by donors. (IDIL)

International PVOs' M&E systems for microenterprise development projects are most often based on a review of annual accomplishments versus previously established very localized objectives. (WVM)

General

Donors other than USAID usually do not use macro measurements to monitor and evaluate the impact of their activities or projects. (All)

Implications

The more effectively managed the organization the more specific their M&E programs.

A focus on commercial measurement would make M&E for agribusiness development projects more meaningful for both the development entity and its clients.

M&E for TA and business consultancy development projects should include the number of managers trained, number of consultants trained and certified, the extent to which training and consulting fees cover actual costs, the success of clients' businesses or associations, the increase in client employees, and the amount of financing sourced for clients.

M&E considerations for MSE development projects should include: the extent to which community-level (versus regional-level) processing and trading enterprises develop and are able to sustain themselves, and the extent to which enterprises evolve from pure trading and toll processing to principal (possession taking) processing and adding value.

M&E for donor-supported venture capital funds should be based on financial performance of the fund and its investments as well as on the number of new investments assessed. In the long term, the ability to sell investments at an acceptable price is also important.

Group lending project M&E considerations should include: unit transaction costs, the repayment rate, the sustainability of the credit entity, growth in the capital base of entities, and the savings rate of the groups' members/clients.

3.6 GENERAL RECOMMENDATIONS

The following recommendations are also relevant to the overall *Innovative Approaches* activity, but do not fit in the above categories.

A formal and ongoing SSA-wide information exchange should be established on agribusiness development lessons learned and the implications for USAID project/activity design and development. (TBC)

Donor programs based on a well-established capability for that donor have good prospects for success. Conversely, new development areas should be approached with considerable care, and possibly in cooperation with other donors who have experience and competence in that area. Therefore, the apparent success of a production agriculture–focused donor agency or PVO does not mean that it will be able to successfully evolve into postharvest development, especially without considerable outside assistance. (WVM)

Donors can use their experience in more developed industries to help rehabilitate agribusiness industries destroyed by political strife and/or civil war (World Bank/FAO/AgMin). In situations of emerging democracies and free market systems, unique opportunities for cooperation between the private sector and donors may emerge, often with considerable mutual benefit characteristics. Innovative, large agribusiness companies represent a good way for donors to leverage their agribusiness and infrastructure development efforts in rapidly evolving countries, especially when the agribusiness firm is willing to cooperate on projects of mutual benefit and interest. Private agribusinesses can be used to identify high-yield business and geographic opportunities, and can often be effective partners in developing these opportunities. (CdZ/Lomaco)

The Tobacco Development Trust in Zimbabwe is a good model of cooperation between commercial farmers, communal farmers, and the government, and merits further assessment. (World Bank)

Effective staffing is absolutely essential to a project's success. Professional management and a strong interest in localization of most operating positions will enable agribusiness projects to get off to a solid start. Hiring higher level counterpart and local staff first will facilitate more local input into design refinements and lower level staff selection. Africans from other countries may be able to supplement the supply of local agribusiness managers while locals are trained and gain more experience. (Mashonaland/CARE/StanChart)

Pragmatic leadership and good donor relations will help PVOs and other intermediaries survive very difficult political and economic conditions. (IDIL)

Shortly after the shift from socialist to democratic systems is a good time for donors to determine where they have a comparative advantage to assist agricultural ministries because at that time these ministries are often quite open to ideas and will cooperate with well thought out programs. (FAO/AgMin)

Improvements in government industrial policies must be accompanied with significant input from the private sector, especially when a country is evolving from a parastatal-based economy. (SIDA)

All aspects of projects' *and* beneficiaries' activities (production, organization, management, marketing, finance, etc.) must be properly served for optimal project or firm success. Also, the donor must conduct a careful and multidimensional viability analysis before choosing the geographic area for a project or activity. (Mashonaland/CARE)

Donors should investigate opportunities to use international expertise to improve the access of producers, especially those in communal areas, to available water resources. Need to conserve scarce water resources on an on-going basis, a la Israel. (World Bank)

3.7 KEY ISSUES DESERVING FURTHER STUDY

The following issues are believed to be sufficiently important to agribusiness development in Southern Africa that an effort, possibly USAID-led, should be made to resolve them.

What is the best way to determine the viability of and to develop agribusiness, and especially NTAE projects, in geographic areas (e.g., the Arusha/Moshi in Tanzania) that have serious potential for a broad-based, positive impact? (Sluis/Sun Flag/NEVEPA)

How can the success, future prospects, and specific agreements of apparently functional outgrower and subcontractor schemes (e.g., in the Arusha/Moshi area) be further assessed? (NEVEPA)

Why do Tanzanian cashew producers receive a much higher portion of the export value per kilogram than do producers in Mozambique? (WB)

How can the success of CARE's high-potential and very innovative "village trader" project in Zimbabwe be best monitored and evaluated by USAID? (CARE)

How can AFC of Zimbabwe play a more important role in agribusiness development *and* agribusiness commercial lending, and what is the most effective way to reorganize and finance AFC's two major areas of interest? (AFC)

4. Zimbabwe

While the long-term importance of agribusiness to the growth of Zimbabwe's economy is widely recognized, there is a profound lack of supporting infrastructure and market-oriented management expertise within the country. Government of Zimbabwe (GoZ) ministries understand the need to increase production agriculture, but they have not focused on opportunities to export NTAE crops such as flowers or specialty vegetables and fruit to meet the requirements of value-added markets. These market opportunities are recognized to some extent by donors, some parastatals, private sector processors, and the Horticultural Promotion Council, but not by the government.

Communal areas in Zimbabwe are characterized by a profound lack of both infrastructure and know-how. There is a severe shortage of management, marketing, and finance expertise, aggravated by insecure land tenure policies and a lack of critical physical infrastructure such as good roads, irrigation, cold storage, and facilities for further processing.

4.1 ENTITIES SELECTED FOR STUDY

For Zimbabwe case studies, the consultants selected ten donor-supported innovative projects, four associations/unions, seven development finance organizations and seven private agribusinesses for review. These entities, and where appropriate the donor supporting them, are listed below. The case study profiles for each of these entities are presented in Appendix A.

Projects: (with supporting donor in parenthesis)

ARDA — Agricultural and Rural Development Authority (various)

CARE — Care International in Zimbabwe

DANIDA — Danish International Development Authority

GTZ — German Technical Assistance Mashonaland and Manicaland Projects - (EU - European Economic Community) World Bank Projects - (World Bank)

ZED — Zimbabwe Enterprise Development Project (USAID)

Zim Trade — Zimbabwe Export Promotion Program (EEU)

ZIMMAN — Zimbabwe Manpower Development II Project/Academy for Educational Development (AED) – (USAID)

ZOPP — Zimbabwe Oil Press Project/ATI – Appropriate Technologies International (USAID)

Associations/Unions:

CFU — Commercial Farmers Union

HPC — Horticultural Promotion Council

ICFU — Indigenous Commercial Farmers Union

ZFU — Zimbabwe Farmers Union

Development Finance Organizations:

AFC — Agricultural Finance Corporation (GoZ, et al.)

APDF — Africa Project Development Facility (IFC)

BSBC — Barclay's Small Business Center

EDESA — Economic Development in Equatorial and Southern Africa Societe Anonyme

VCCZ — Venture Capital Company of Zimbabwe

ZDB — Zimbabwe Development Bank

ZimBank — Zimbabwe Banking Corporation Limited

Private Agribusiness Enterprises:

A&S Business Development and Promotion

Favco Limited

Flair Limited

Gev's Flowers

Hortico

Hortpack

Selby Enterprise

Most donor-supported entities have multiple areas of focus (see Table 4.1). Therefore, an assessment of each project, association/union, and private organization was performed for each area of focus.

4.2 LESSONS LEARNED AND IMPLICATIONS FOR USAID PLANNING

In the following sections, Lessons Learned and Implications for USAID planning derived from analyses of the entities profiled in Appendix A are presented. They are grouped into priority categories based on (1) the anticipated positive impact on USAID objectives and operations if they were successfully adopted, and (2) the extent to which the lessons learned or implication is broadly applicable, that is, applicable to SSA agribusiness projects in general. While this prioritization is subjective, it represents the studied opinion of the research analysts and draws upon their many years of experience in agribusiness development in developing countries. The *primary* source of the lessons learned or implication is shown in parentheses. In the NTAE and indigenous SME development sections, the major focus of the Southern Africa portion of the *Innovative Approaches* activity, the material is divided into Lessons Learned and USAID Implications sections.

4.2.1 Non-Traditional Agricultural Export Development

NTAEs from Zimbabwe to the EU have exhibited remarkable growth in the past decade. Fresh vegetable exports increased from 340 tons to over 8,000 tons with a value of $27 million during this period, while cut flower exports grew from 400 tons to 8,400 tons, valued at $42 million. Citrus exports are valued at approximately $9 million. Further increases are expected because market conditions remain favorable in Europe for this off-season production and because Zimbabwe has many of the characteristics needed to compete in this market.

Table 4.1 Zimbabwe Innovative Projects and Their Areas of Focus

Project (Donor)	NTAE Promotion	Association Development	SME Development	Financial Services Development
ARDA (EU+Others)	Yes	Yes	No	Indirect
CARE (Private)	No	Yes	Yes	Some
DANIDA	Production Only	No	Minor	No
GTZ	No	Yes	Minor	No
Mashonaland/ Manicaland (EU)	Some	Yes	Yes	Minor
World Bank	Some	No	Yes	Yes
ZED (USAID)	Yes	Yes	Yes	Yes
ZIMMAN (USAID)	Indirectly	Some	Indirectly	Indirectly
ZimTrade (EU)	Yes	No	No	Minor
ZOPP (USAID)	No	No	Yes	Indirect

The major constraints to NTAE development, especially horticulture, in Zimbabwe include the following:

- Less than optimal industry coordination. The Horticulture Promotion Council (HPC) has supported the industry, but while it has a diverse membership, its basic support has come from the Commercial Farmers Union (CFU), which is composed primarily of large commercial (white) farmers. HPC is being reorganized outside of the CFU, but until that reorganization is successful there is minimal industry-wide coordination.
- NTAE production and export activities are dominated by the large commercial farmers and their forward integration activities. Two of the three largest packer/exporters are owned by large commercial farmers. While this does not necessarily constrain NTAE development, it does limit the range of those who can benefit from NTAE success.
- Air freight costs are high, primarily because Affretair (a parastatal about to be privatized) controls air cargo availability and rates.
- There is a shortage of trained personnel at the extension, fieldworker (except on large commercial farms), and marketing levels.
- National-level quality and phytosanitary/chemical/residual inspection is less than adequate, especially for products destined for developed markets.
- Constraints particular to Indigenous SME participation in NTAEs include the weak position of small producers and middlemen relative to that of the large exporters; poor access to the financing needed to purchase equipment such as sprayers and trucks; lack of NTAE marketing knowledge and information; limited access to water from irrigation projects, especially in communal areas; and inadequate business management training.

These constraints must be addressed and overcome in order to accelerate the rate of NTAE development in Zimbabwe.

High Perceived Impact

Some form of product consolidation is necessary for the financial success of NTAE marketing projects involving small-scale producers. (Mashonaland)

The NTAE "service company" concept, which was successful in Mashonaland East, should be tried elsewhere. This is a joint packer/small farmer owned center that is responsible for land preparation, spraying, TA, consolidation, cold storage, and transport. (Hortico)

Selby Brothers Inc. seems to have established the basics of a good NTAE outgrower scheme, which could be further developed with the help of more capital investment and greater price transparency. (Selby)

The Affretair airfreight cost issue needs immediate investigation because it is a significant problem for all air exporters. (Selby/Flair/HPC)

There is considerable misunderstanding and distrust on the part of small NTAE producers as related to the price packers or exporters pay for produce, especially related to product grade-out and the appropriate price for various terms of sale (e.g., FOB factory versus field pick-up, COD versus consignment, and TA provided versus no TA). (ZFU)

A large up-front investment and significant ongoing operating costs are needed for a broad-based NTAE promotion and information service. (ZimTrade)

Joint government funding for NTAE promotion is unreliable, but a small industry-supported surcharge on imports and/or exports is a good way to fund an export development entity. (ZimTrade)

There is a viable regional NTAE market, and there are available non-African markets other than the EU. There seems to be excessive emphasis placed on the export market for horticultural products, especially when the domestic market is underserved and less difficult to supply. Indigenous SMEs find developed NTAE markets very high-risk business. (Favco/Zimman)

A horticultural development center could offer the *integrated* services necessary for Indigenous SME success in export horticulture, especially with the support of a firm such as Hortico or Selby. (Hortico/Selby)

Donor-supported Indigenous SME NTAE development requires considerable and ongoing “hands-on” assistance. (ZimTrade)

Due to high interest costs, it will be difficult to use debt to finance new NTAE businesses that are not fully integrated (i.e., that can capture most of the margins available between the producer and the consumer). (ZimBank)

For successful development of Indigenous SME exports the following are needed:

- Large number of well-organized producers in a small geographic area with access to irrigation.
- Cold storage unit at collection points to remove field heat and store the produce.
- Producer-owned transport/collection system.
- Readily available qualified TA, primarily as related to quality control.
- Access to a good communications system.
- Focus on higher value products.
- Shared production-related equipment such as sprayers.
- Access to the local fresh or processed market for off-grade product and overproduction. (Hortico)

NTAE outgrower schemes have potential in Zimbabwe, but the optimal arrangements (e.g., agreements and support systems) for them have yet to be identified. (World Bank)

Medium Perceived Impact

To minimize administration costs, horticultural producers associations may need to act as principals rather than as agents, which is often the current practice. Developing an association that *purchases* members’ production may be of particular interest to members. (Mashonaland)

Where infrastructure is inadequate, less perishable NTAE products must be produced. (ARDA)

An HPC-supported extension service (possible via alliance with Agritex) is feasible and has merits, but should be investigated.

If NTAE associations become large enough and well organized enough to develop their own packing/processing facilities and to act as a principal for members’ inputs and outputs, APDF could help assess the feasibility of the operation, develop a business plan, and source both equity and debt financing. (APDF)

Production of shade roses can be financially rewarding but requires a large capital investment, relatively high technology, and very professional international marketing management. (Flair)

The merits and feasibility of an HPC-supported extension service (possibly via an alliance with Agritex) is feasible and has merits, but should be investigated. (A&S)

Indigenous SMEs can be successful in the NTAE business if owners/management have talent and tap into all sources of assistance. (Gev’s)

Possible NTAE development interventions that USAID could pursue independently include assisting farmers to buy spraying equipment, and investing in cold stores and an office at the assembly point for the growers’ representative (to keep track of shipments). Farmers also need help acquiring irrigation equipment such as pumps, though these would have to be powered by gasoline engines in the many growing areas where there is no electricity. (Hortico)

Lower Perceived Impact

Marketing NTAEs should be the responsibility of an entity closely associated with production rather than with an administrative entity (e.g., the Tea Estate versus ARDA). (ARDA)

Not all domestic buyers are willing to pay a premium for better quality produce. (Mashonaland)

Implications

The design and implementation of NTAE development projects should take into account the following:

- Marketing and Promotion components should focus on:
  - Consolidating product from MSE producers or middlemen in order to achieve economies of scale.

- — Minimizing freight costs, especially air, by stimulating passenger volume and reducing Affretair control over air cargo.
- — Investigating and developing regional markets, especially for product from SMEs.
- — Ensuring that marketing responsibility rests with qualified and experienced managers and within day-to-day operations entity, not with a bureaucracy or non-commercial entity.
- — Ensuring that any export promotion entity has enough financing and technical support for the long-term effort required.

- A financial component should offer at least working capital to NTAE participants who do not have access to foreign exchange–based loans. However, new participants should be discouraged from acquiring too much debt (i.e., attempting to operate with a high debt-to-equity ratio) because their lack of vertical integration usually does not enable them to capture sufficient margin to service a heavy debt burden.

- Developing and supporting sustainable NTAE associations is an excellent way to leverage scarce project resources. An assessment should be made of associations which function as a principal to supply inputs, own shared fixed assets and purchase output from members. These may then get tiered into a multilevel association structure headed by a project- supported umbrella association. NTAE related extension services can be supported by the most appropriate level association (e.g., a Flower Producers Association, which is under a Horticulture Association, which may be under an Export Promotion Association). APDF can be asked to assess and, if viable, develop a business plan and source financing for larger commercial associations.

- Link small producer or middleman with larger, successful NTAE exporters. This may include joint producer/exporter ownership of the equipment or services needed to facilitate the alliance, subcontracting, and/or outgrower arrangements. It is important to ensure ongoing price transparency and develop trust between the alliance partners as related to how price is determined, the options and "costs" associated with different terms, and how grade-out is determined.

- Enabling environment components of the project should focus on enhancing transport (i.e., roads, airports and seaports) and telecommunications infrastructure.

- Institutions that should be assessed on the basis of their ability to help accomplish project objectives include not only associations but also NTAE development center so which could offer fully integrated services (i.e., finance [debt and equity], technical assistance, and managerial development and consulting). Indigenous SMEs will require a significant amount of ongoing "hands-on" support to be successful in NTAEs.

- An industry cess on exports and/or imports can be used to help finance the program components that have the highest degree of industry support.

4.2.2 Indigenous SME Development

Developing agribusiness Indigenous SMEs in Zimbabwe is especially important from both political and economic perspectives. Commercial agriculture and agribusiness have traditionally been controlled by the minority whites and more recently by parastatals. About one-third of the non-urban indigenous population lives on commercial farms, the other two-thirds (representing about 50% of the total population) live in communal areas, most of which are very short on resources such as water, infrastructure, and other services. Developing agribusiness Indigenous SMEs (especially ones that benefit communal areas) would stimulate demand for communal-produced raw materials, provide employment for both communal and urban fringe residents, and enhance the livelihood and life style of a large portion (6 million+) of the population, which would in turn lead to improved political stability. Because a large portion of the Zimbabwean population is involved in agriculture and food production, it would be easier to develop Indigenous SME agribusinesses than other types of businesses and it would benefit a larger portion of the population.

While limited water availability and unreliable rainfall present a challenge for agribusiness in Zimbabwe, the country is reasonably well endowed with other agriculture-related resources (e.g., arable land) and conditions.

High Perceived Impact

Undercapitalization is *the* major constraint to most Indigenous SMEs. Limited access to capital (collateral, debt, or investor equity) and a serious shortage of the skills needed to manage a business in a way that enables sustainability and repayment of loans are important constraints to Indigenous SME success in Zimbabwe. There is a significant need to enhance the cost competitiveness of Indigenous SMEs, possibly by training or mentoring by successful entrepreneurs. As the marketing boards decline in importance and their functions are taken over by the private sector, major amounts of training are required to enable new managers to function effectively and efficiently. Training programs are also needed to help other new entrepreneurs develop their managerial and financial skills beyond the very limited scope of their former positions. (WB/ZIMMAN/AFC/VCCZ)

An institution that helps Indigenous SME entrepreneurs prepare financing proposals and then operate their businesses in a manner that ensures financing repayment/increasing share values will make a significant contribution toward stimulating more new SMEs and the growth of existing enterprises. (VCCZ)

The development of specific programs to link SMEs and large enterprises needs to be a high priority of the restructured HPC. However, achieving significant tonnage sales via linkages/outgrower schemes, without donor assistance, is challenging. (HPC/ZFU)

Domestic supply/demand balancing opportunities (i.e., moving excess production in irrigated areas to locations where there is a shortage of that same product) should be thoroughly investigated, especially the role of Indigenous SMEs therein. (A&S)

CARE's "village trader" project is very innovative, has considerable potential, and should be monitored by USAID because it has the potential to enhance the structure of marketing at the village level. (CARE)

There is an acute shortage of Indigenous SME financing (i.e., short-term credit, intermediate-term debt, and equity).

In the short-term, resistance by the GoZ to pressure from the World Bank for austerity and downsizing prevents higher levels of unemployment, but by not implementing these measures the GoZ uses most available domestic credit and crowds out private borrowers.

Implications

USAID could (1) join the donors being organized by the World Bank to pool development funds, then steer some percentage of that pool to Indigenous SME development (alternatively, USAID could itself create Indigenous SME financing pools and vehicles); (2) through the SAEDF, and using existing intermediaries (e.g., the Venture Capital Company of Zimbabwe), provide investment guarantees, debt, equity, and so on; and (3) continue to support World Bank pressure on GoZ to restructure, reduce taxation, and free up debt capacity for the private sector.

Implications

Capabilities under USAID's AMIS II project in FADC development when teamed with NGOs' knowledge of rural communities could be an important development mode for indigenous SMEs.

Lesson Learned

Some processors and exporters are working with smallholders to develop new sources of supply, but these efforts have yet to generate a significant volume of Indigenous SME-sourced business volume.

Zimbabwe exporters have a genuine interest in working with small growers who can supply them with products, but their efforts have so far had minimal impact. The firms interviewed seem to be sincerely looking for persons willing to dedicate themselves to the production of higher value crops that require a lot of plant-by-plant individual attention. Constraints on these firms to do more of this supplier development are largely cost and time related.

Implications

USAID could (1) use well-established matching grant mechanisms to reduce the cost to large exporting firms of reaching out to small landholders and communal organizations in rural areas; (2) earmark (reserve) TA funds for those smallholder enterprises or other Indigenous SMEs opting to become suppliers to larger firms; (3) support the creation of FADCs as facilitating institutions to help large processors and distributors reach and assist rural Indigenous SMEs, thereby linking them with distribution channels, technical support, and so forth; (4) fund the development of a rural network of FADC substations with a resident extension agent, manager, support staff, and processing equipment, cold storage, and office equipment that could be shared by local Indigenous SME entrepreneurs; and (5) provide incentives to local entrepreneurs who wish to become private truck owners, provided that they agree to deliver local agribusiness products to processors.

Lesson Learned

There is a severe Indigenous SME "knowledge gap" with respect to business and financial management know-how.

Smallholders, particularly in communal (rural) areas, are essentially without managerial or financial knowledge, even to the point of noting how to put exploratory proposals together.

Medium Perceived Impact

Certain NGOs want to increase their economic development work in rural/communal areas. A few NGOs are beginning to move out of their classical "charity" mode as they recognize the potential of rural, for-profit enterprises to generate sustainable, community-based economic development.

Implications

Rather than expand traditional business training programs, such as USAID has supported all over the world, training should be an integral component of support provided to every new venture, focused strictly on practical needs of each venture and designed to transfer specific operational know-how.

Lesson Learned

Infrastructure in most rural areas is in poor condition.

In many of the areas in Zimbabwe suffering from drought, the water table is within a few meters of the surface. In view of the likely continuation of drought conditions, this groundwater resource needs to be tapped for local use rather than for a nationwide system, which was proposed previously. The rural areas where most of the communal holdings are found are reached only with difficulty on very poor roads.

Implications

Sustainable irrigation development and road building should be supported by the GoZ and/or private development. However, projects of this nature need considerable donor help. USAID needs to select projects that are cost effective and politically feasible with respect to implementation.

Lesson Learned

Low Perceived Impact

The GoZ remains securely entrenched in the economy, and is still trying to control the agriculture sector through commodity production and selling.

While the GoZ is slowly liberalizing its hold on the economy, its various marketing boards are evolving into "privatized" parastatals. The extension service, now reorganized as Agritex, is still dysfunctional. Overall, no agency seems to have assumed the responsibility to develop agribusiness or even to bring management and financial expertise to the communal areas. In fact, the opposite appears true, as there are still a large number of laws and regulations that control and restrict private sector initiatives. The GoZ and its parastatals are uncomfortable with entrepreneurs moving in directions not previously planned and approved by the government, particularly in rural areas.

Implications

Unlike the governments in Mozambique and Tanzania, the GoZ often attempt to insert itself into a program by insisting on government "permitting" or licensing of private sector initiatives. USAID should work with the GoZ to clear the way for projects USAID wishes to support. Failing that, USAID should work with the World Bank and other donors to minimize GoZ involvement.

General Implications

A special activity/project/fund is needed to convert the debt of viable agribusiness Indigenous SMEs to equity so that they can establish themselves on a sustainable basis, especially during difficult economic times, such as that caused by the current drought. (AFC)

SME entrepreneurs who are willing to submit to detailed scrutiny by banks and who have good personal recommendations are usually good risks, even with minimal collateral. (BSBC)

Privately funded PVOs can be very effective and innovative *if* they are well managed. They should therefore be considered as partners in rural Indigenous SME agribusiness development work. (CARE)

A focus on training to help entrepreneurs develop business plans that are intended exclusively for financial institutions is not useful due to the limited availability and cost of financing. Training to develop business plans for their own use (i.e., as a basis for managing their business) will achieve a high yield. (ZIMMAN)

The lack of financing and marketing assistance can restrict the overall success of a pure technology transfer project. (DANIDA/Fuva)

Donor-supported communal-level work must involve both local chiefs and relevant GoZ officials. (A&S)

Therefore, USAID agribusiness Indigenous SME development activity in Zimbabwe should include:

- A component that looks for and develops domestic supply/demand balancing opportunities, especially for horticultural products.
- Assistance for entrepreneurs to develop business plans and financing proposals, especially business plans that they can themselves use as a basis for managing their businesses.
- Direct or indirect (referrals or guarantees) access to financing including equity, working capital, and debt, as well as the ability to convert debt to equity.
- Management skills development, especially cost control, managerial finance, and marketing.
- A program for developing and sustaining linkages and alliances involving small producer groups and large firms that can be their customers, mentoring of SME managers by successful managers of similar, larger firms, and opportunities for SME forward integration and/or subcontracting. This program must be developed and implemented in a manner that accommodates the economic and political pressures affecting linkage/alliance partners.
- Support for the organization and sustainability of a broad-based HPC, which may include horticulture-related extension and highly applied R&D services.
- Cooperation with privatized former parastatals (e.g., ARDA and AFC) well-managed and commercially oriented NGOs (e.g., CARE) and successful private sector entities that have at least some objectives that are consistent with those of USAID (e.g., Hortico, Selby, EDESA, VCCZ and BSBC).
- The efficient and effective integration of financial, technical, and managerial services into a single entity that can serve the range of Indigenous SME needs from one location.

4.2.3 Association Development

Agribusiness associations are reasonably developed in Zimbabwe but are dominated by producer-based interests (four of which are profiled in Appendix A). As mentioned above HPC is undergoing a major reorganization; and it is important that a broad base of support be developed for the new HPC. Associations in relevant areas other than production agriculture or horticulture do not seem to be active.

High Perceived Impact

Local producer associations can succeed in Zimbabwe. Producer-owned, marketing-focused entities/associations *can* be very successful international marketing organizations. The key to their success is the professionalism and quality of entity/association management and the competitiveness of its members. Leadership and financial training are essential to develop successful association management. (Mash East/Flair)

Well-organized and well-managed multilayer associations can improve project leveraging. For example, ZFU works with subassociations called Horticultural Producers Associations (HPAs) to enable the leveraging that make its operations more effective and efficient. (Mashonaland/ZFU)

Medium Perceived Impact

Membership loyalty is a requirement for association sustainability. (Mashonaland)

Lower Perceived Impact

While the ZFU is willing to work with the CFU, it wants to retain its own identity. The logic of producers paying dues to their HPA, the ZFU, and the HPC may be difficult for some members to understand, and the responsibilities and services of the various organizations must be carefully coordinated to avoid duplication. (ZFU)

4.2.4 Financial Services Development

While the long-term situation in Zimbabwe appears promising, most banking and business leaders anticipate continuing high inflation and deterioration in private sector balance sheets. With declining revenues, the GoZ raises taxes, but resists World Bank and other donor pressure to cut back expenditures. The GoZ thus uses much of the debt capacity of the country to cover its own deficit spending. Consequently, there is insufficient credit available for any major expansion of the private sector. In fact, with the cost of debt high, debt-to-equity ratios are worsening for most large firms. This situation has been exacerbated in the agribusiness sector by persistent drought conditions, which have reduced agricultural production considerably below "normal" or expected levels.

Although there is money available for debt financing, most agribusiness firms are in no position to add debt. Further, even though there is an increasing amount of money available for equity investment, the balance sheets of most smaller and some larger agribusiness firms are generally not strong enough to attract new investors.

High Perceived Impact

A lack of investable ideas is most often a greater constraint to agribusiness finance than a lack of available financing. (VCCZ)

Financial services by themselves will not stimulate economic development as much as *integrated* financial, managerial, and technical assistance. (VCCZ)

As demonstrated by EDESA, professional management and a very clear commercial focus (asset growth and return on investment) will have a very positive impact on economic development projects, even *without* subsidization or nonrecoverable assistance beyond initial equity and guarantees. This includes checking the veracity of project proposals, especially as related to market share assumptions and the marketing plan, and hands-on mentoring and oversight management *after* financing. Both of these are critical to the success of a donor-supported direct or indirect (via a financial intermediary) investment, particularly in rural areas and in agribusiness. (EDESA/VCCZ)

Loan officers' knowledge of the geographic area, the borrowers' neighborhood-sourced references, and the business of the firm being assessed is essential if financing is to be provided on criteria other than collateral. This neighborhood networking approach for screening small loan applicants works, and should be even more effective in rural areas where everybody knows everybody. Therefore, lending on criteria other than collateral requires specially trained loan officers, preferably with an intimate knowledge of the market they are serving. (BSBC)

Keeping smallholder transaction costs low and repayment ratios high are difficult even for well-managed institutions. Group lending via intermediaries (such as NGOs) appears to be one way to control these costs. Group lending can also help overcome collateral problems based on communal land ownership and land tenure difficulties. The optimal group size for group lending is 10 to 25 members. (AFC/WB/ZFU)

Medium Perceived Impact

A high debt-to-equity ratio puts severe interest cost and ROI pressures on new/rapidly expanding businesses, especially in high interest rate environments. (VCCZ)

The new HPC should be a good intermediary for donor-supported training and/or financial assistance activities. The reorganized HPC will need to include financial assistance, direct or indirect, in its range of services. (HPC)

The lack of clear title to land necessitates group lending schemes, possibly via associations such as the HPAs. (ZFU)

Based on AFC experience, producers and Indigenous SMEs will respond favorably to constructive new financial concepts. (AFC)

When the commercial and development parts of AFC are separated, the development portion will represent a good intermediary for joint donor support of indigenous enterprise development. AFC has solid experience in a range of financial support mechanisms and is also experienced working with donors. However, its *agribusiness* experience is limited. (AFC)

Financing (initial and ongoing) and managing communal irrigation networks is a significant challenge. (AFC)

Lower Perceived Impact

The commercial portion of AFC will likely be in a better position than ZDB to support agribusiness development. (ZDB)

A financial parastatal can work effectively with donors and can become involved in somewhat innovative and more risky lending. But it is difficult for a parastatal to view agriculture on a *broader-than-production* basis. (AFC)

4.2.5 Monitoring and Evaluation

USAID places much more emphasis on formal M&E systems than do other donors. That portion of donors' support intended to improve Zimbabwe's balance of payments is coordinated with other donors and the World Bank and uses progress on conditions precedent as an impact measurement. However, it is unusual for other donors' projects and project-related activities to use macroeconomic measurements to assess the impact. There are two primary reasons for this: (1) other donors tend to disburse their assistance through local government entities whose performance they cannot control, and (2) activities are most often broken down into individual targeted projects or activities that have their own set of narrower (non-macro level) objectives.

Progress on these objectives is usually assessed on at least an annual basis, but not necessarily using extensive quantitative measurements. Rather, considerations such as the satisfaction level of the beneficiaries and government entities involved play an important role.

Lessons Learned

Separating ARDA's developmental activities from its commercial activities will enable better monitoring and evaluation of the development activities, and donors will be better able to work with the new development entity. (ARDA)

Input/output assessments or cost-effectiveness evaluation of ARDA projects is difficult to assess. (ARDA)

Implications

The World Bank's Enterprise development Fund should be monitored by USAID for successful approaches to SME export financing and to determine if a finance-only project can succeed. (World Bank)

The Republic of South Africa (RSA) market seems to have some potential and it would be worthwhile to investigate Selby's basis for success there. (Selby)

The sustainability and secondary benefits of ZOPP may offer insight. (ZOPP)

Further analysis of the GTZ/CARD M&E system may suggest adaptable ideas. (GTZ)

4.2.6 General Recommendations

The following recommendations are believed to be relevant to the overall *Innovative Approaches* activity in Zimbabwe, but do not fit under the above categories.

High Perceived Impact

All aspects of a project's and beneficiaries' success (production, organization, management, marketing, finance, etc.) must be properly served for optimal success. Any one missing component missing, it will limit the success of the others. (Mashonaland)

Effective staffing is absolutely essential to a project's success. (Mashonaland)

Is a good model for achieving cooperation between commercial farmers, communal farmers, and the government is the Tobacco Development Trust. (World Bank)

Based on observations of how water is managed and conserved in Zimbabwe versus places that traditionally have a water deficit for agriculture (e.g., Israel and the American Southwest), there are opportunities to improve water management beyond those associated with the current drought. (World Bank)

Medium Perceived Impact

Because the CFU has not adequately served the interests and needs of indigenous commercial farmers, they are forming their own organization, the ICFU. This will make donor work with the CFU more difficult since its support base is a minority (predominantly white farmers) group. (ICFU)

An export development project's *quantitative* success will be enhanced if it focuses on *commercial* considerations. (ZimTrade)

4.2.7 Key Issues Deserving Further Study

The following issues are sufficiently important to agribusiness development in Zimbabwe that an effort should be made to resolve them.

High Perceived Impact

How can AFC be encouraged and assisted to play a more important role in agribusiness development (versus production agriculture) and agribusiness commercial lending? (AFC)

What is the most effective way to reorganize and finance AFC's two major areas of interest? How can the sustainability of the commercial lending company by established? Want is the best way to privatize and sustain ARDA? (AFC/ARDA)

Medium Perceived Impact

What is the best way to monitor the effectiveness of CARE's "village trader" activity? (CARE)

How would the ICFU "fit" into the restructured HPC? (ICFU)

4.3 USAID ZIMBABWE AGRIBUSINESS DEVELOPMENT RECOMMENDATIONS

Based on the very brief work of the AMIS II team in Zimbabwe, the following is offered as a very preliminary input to Mission agribusiness development program enhancement.

Issues

The most important agribusiness issues, on the basis of fieldwork and interviews, appear to be:

1. What is the best way to improve the economic access and agribusiness-related success of the indigenous population? Improved access to sources of agribusiness income will likely involve helping Indigenous SME entrepreneurs identify viable business opportunities in food and agribusiness subsectors with good Indigenous SME potential, and enhancing their managerial capabilities so that they can take advantage of these opportunities on a sustainable basis.

2. What is the best way to improve the efficiency, effectiveness, and reliability of production agriculture so that agribusinesses have an ongoing, competitive cost and acceptable quality supply of the *specific inputs* they need?

   Two of the several areas of focus here are improving water, and to a lesser extent soil, utilization and management, and improving the maize yields of communal farmers so they can focus on cash crops.

3. What is the best way to improve the international competitiveness of Zimbabwe agribusiness firms (i.e., enable them to improve their quality, reduce their costs, and increase their domestic and export sales)?

4. What is the best way to stimulate the further development and competitiveness of the horticultural subsector and the role of Indigenous SMEs therein?

This will likely include: (1) resolving the air freight licensing and cost problem, (2) determining how domestic supply and demand for horticultural products can be better balanced, and (3) determining how to restructure and gain broad-based support for the HPC in a way that enables it to take a truly leadership role in horticultural development, and incorporate the needs, interests, and potential of *all* participants.

Interventions

Some of the specific interventions that should be considered to address the above issues are:

1. Develop models for and help establish viable and ongoing commercial linkages between Indigenous SME producers and/or groups of producers (e.g., SHGs and associations), middleman firms, or individuals and the large agribusiness firms. Examples of such linkages are contract production, outgrower or service supply (e.g., collection, chilling, storage, delivery) agreements, subcontracting, and mentoring. The potential for links between large commercial farmers and communal farmers should also be investigated.

2. Helping to design a horticulture sector development strategy in concert with producers, packers, exporters, and the government and helping to implement the strategy in a way that ensures the support and involvement of a broad base of participants, especially indigenous producers and Indigenous SMEs. This would include resolving the air freight availability and cost issue.

3. Investigate and, where viable, develop alliances between established, agribusiness-related development projects and successful commercial firms so that the capabilities and experience of the firms can be used by the projects. An example would be horticulture sector development alliances between project-type entities (e.g., ARDA, AFC, CARE, and World Bank) and established commercial export companies (e.g., Favco, Flair, Hortico, and Selby).

4. Reinforce and expand the Indigenous SME management and marketing training programs currently being implemented and extend their reach beyond Harare to rural areas. These programs should include association and SHG management training, especially in membership needs assessment, the development of programs to serve members' priority needs, sources and uses of funding management, effective lobbying, and financial control.

5. Investigate and, if feasible, help develop ways to balance the supply and demand for perishable domestic food products. This seems especially needed for horticultural crops where some areas have access to irrigation and others do not. Often there is an excess supply of product in the area with access to irrigation and prices are very low, while at the same time there is a shortage in areas without irrigation and prices are very high. The price difference can justify the movement of product to the areas with the shortage, but the market information, traders, and equipment (cold stores and trucks) needed lacking.

6. Assess the viability of and, if feasible, develop a Food and Agribusiness development Center (FADC) focused on a high-opportunity subsector such as horticulture and a target beneficiary group such as Indigenous SMEs. An example of such an FADC, called the Zimbabwe Horticultural development Center follows. It is important to note that such a center would offer one-stop-shopping (debt and equity financing, technical assistance, and managerial consulting) to Indigenous SMEs interested in horticulture and would do so by helping clients access a network of existing services, *some* of which are now available to target beneficiaries. The center would offer to clients only those services that could not be obtained from existing sources. In some cases the center would work with its network of sources to provide clients with access to services that they could not utilize without center support. Therefore, the Horticultural development Center would work with entities such as AFC (debt), ARDA (access to irrigated land or medium-scale production from irrigated land), CARE (access to small-scale production), BSBC (MSE debt), EDESA/UAL (leasing), VCCZ (equity for larger investments), and Favco, Hortico, Flair and Selby for export marketing.

Example: Zimbabwe Horticultural Development Center (a type of FADC)

Staff (initially expatriate):

- Center Manager and Horticultural Export Firm Management Specialist
- Horticulture Production and Input Supply Specialist
- Horticultural Products Postharvest (grading, sorting, processing, packing, etc.) Specialist
- Horticultural Products Marketing (local, regional, and developed markets) Specialist
- Financial Specialist (with both debt and equity experience, focused on SMEs)
- Local counterparts for all positions

Major Objectives:

- Help Indigenous SMEs fully participate in horticultural development by establishing effective linkages between existing large exporters and Indigenous SMEs
- Help Indigenous SMEs achieve the economies of scale they need to be sustainable horticultural products business participants
- Develop and help implement programs that will enable Indigenous SMEs access to irrigated land and products therefrom
- Identify and develop suggested changes in the enabling environment needed for clients to succeed
- Help the HPC fully incorporate the needs and interests of Indigenous SMEs into their programs and lobby the government for an improved enabling environment for Indigenous SME horticultural businesses
- Priority would be given to firms with some horticultural products postharvest experience (versus start-ups)

Services (to be provided by network partners or directly when not elsewhere available):

- Technical assistance: Production, processing, marketing, etc.
- Managerial assistance: Business plan development and management, financial control, development of financing proposals, human resources development, etc.
- Debt: Working capital, foreign exchange, intermediate term, long term
- Equity: Start-up equity would be provided with reluctance, expansion equity with pleasure
- Financial services available only if a management services contract is signed by client
- If necessary and feasible, lease/rent shared fixed assets such as office space and services, spraying equipment, cold storage facilities, trucks, packing plant, etc.

Financing/Support Network:

- USAID: $300,000 for feasibility study and implementation plan, $200,000/year for four years for operations
- World Bank: $500,000/year for operations for four years via the Agricultural Finance Corporation
- EDESA: $1 million line of equity funding plus equity finance technical assistance
- ZimBank: $2 million line of credit at LIBOR
- ARDA: Assistance to help organize and coordinate the efforts of producers and agribusinesses on newly irrigated lands
- CARE: Assistance to involve producers and agribusinesses on CARE's dam reclamation projects
- Hortico: Joint export marketing and export technical assistance
- Horticultural Promotion Council: Assistance in stimulating needed enabling environment modifications

5. Mozambique

Mozambique is still recovering from the aftermath of a sixteen-year civil war. The economy is struggling despite the Government of Mozambique's (GoM) acceptance of a stringent Economic and Social Rehabilitation Program (ESRP) initiated in 1987. Industrial output has declined steadily, commodity exports continue to drop, and the loss of markets in the former Soviet Union and the Eastern Bloc has severely hit textile exports. Therefore, the policy environment in place at the end of 1994 did not facilitate a reversal of the continuing decline of output and concomitant deterioration of the economy.[3] Even with continual "carrot and stick" pressure from the World Bank and international donor organizations to accelerate reforms, it appears unlikely that there will be much change in the near term.

During the past two years, much of the population that fled war-torn areas has begun to return. Because land title was never clearly vested in individuals, there is little acrimony between present and past occupants of the land. Generally, former smallholders returning to the precise areas in which they formerly lived and farmed have been able to reclaim "their" acreage.

Consequently, truck garden production, largely for local consumption, is being reestablished, in addition to row crops such as maize and cotton. Unfortunately, with the government under pressure to reduce its payroll, extension services are being severely cut back, and there seems to be no concerted effort (including by donors or the GoM) to reestablish rural economies and enterprises on a basis that reflects current economic and political realities. However, there was one activity carried out by Lomaco,[4] in concert with the government and small farmers (some of whom will become contract growers), to develop an area improvement plan.

It is only recently that the USAID Mission and other donor agencies feel that they have met the needs of war refugees, road rebuilding, providing food security, and the like. Now the USAID Mission is considering, in addition to infrastructure rehabilitation and policy enhancement efforts, the facilitation of long-term economic development through support for the establishment and expansion of private sector food and agribusiness enterprises.

Implications

Work in rural areas to facilitate establishment of private-sector agribusiness-oriented Indigenous SMEs is apparently not among the GoM's top priorities. USAID, the World Bank, and other members of the donor community should therefore be prepared to stimulate support for and work in concert with enterprise development programs with particular ministries or parastatals, which could involve obtaining blanket approvals and authorizations at the ministry level on behalf of SMEs being assisted. New SMEs will need representation and policy help on such matters as tariff collection on competitive imports, corporate tax law enforcement, and reducing the negative influence on Indigenous SMEs of the remnants of exploitative colonialism by Portuguese-controlled firms.

5.1 ENTITIES SELECTED FOR STUDY

Mozambique is in a much earlier stage of agribusiness development than Zimbabwe or Tanzania. It is just coming out of a very difficult period of civil war and socialist, anti–private sector policies. Thus, there are few entities that are relevant as case studies for the *Innovative Approaches* project.

Five donor-supported innovative projects, one association, and three private agribusinesses were selected for case studies; no development finance organizations were identified.

The selected entities, and where appropriate the donor supporting them, are listed below. The case study profiles for each of these entities are presented in Appendix B.

Projects: (with supporting donor in parenthesis)

CARE — CARE International em Mocambique (private and donors)

FAO/AgMin — Food and Agricultural Organization of the UN/Mozambique Ministry of Agriculture (FAO)

IDIL — Instituto Nacional de Desenvolvimento de Industria Local (various EU)

World Bank Projects (World Bank)

World Vision — World Vision Mozambique (private)

Associations:

Agrarius — Associacao dos Produtores Agrarios de Mocambique (none)

Development Finance Organizations:

None

Private Agribusiness Enterprises:

Companhia da Zambezia

Interposto

Lomaco Companhia Agro-Industrial Lonrho Mocambiqe

Most of the above entities have multiple areas of focus (see Table 5.1). Therefore, an assessment of each project, association, and private organization was performed for each area of focus.

5.2 LESSONS LEARNED AND IMPLICATIONS FOR USAID PLANNING

In the following sections, the lessons learned and implications for USAID planning, which were derived from analyses of the profiles included in Appendix B, are presented by Key Focus Area. Each section is divided into general lessons learned and implications and those specific to Mozambique. The lessons learned and implications are listed in approximate order of priority based on the anticipated positive impact on USAID objectives and operations if they were to be successfully adopted, and, for the general sections, the extent to which the lesson learned or implication is broadly applicable, that is, applicable to SSA agribusiness projects in general. This prioritization is subjective, but represents the studied opinion of the research analysts and draws upon their many years of experience in agribusiness development in developing countries. The *primary* source of the lesson learned or implication is shown in parentheses. In the NTAE and SME development sections, the major focus of this report, the material is divided into Lessons Learned and USAID Implications.

5.2.1 Non-Traditional Agricultural Export Development

Cashews, tea, and sugar were historically Mozambique's main foreign exchange earners, although there

Table 5.1 Mozambique Innovative Projects/Associations and Their Areas of Focus

Project (Donor)	NTAE Promotion	Association Development	Indigenous SME Development	Financial Service
CARE (private)	No	Yes (informal)	Yes	Yes
FAO/AgMin (FAO)	Yes	No	Some	No
IDIL (various EU)	No	No	Yes	Indirect
World Bank Projects (World Bank)	Yes	Some	Yes	Yes
World Vision (private)	Minimal	Yes (informal)	Minimal	Minimal
Agrarius (none)	Some	Yes	Indirectly	No

were significant coconut exports until the civil war ended sustained production. Exports of cashews, tea, and sugar have not recovered from the disruption of production and marketing systems caused by the war; nor have they recovered from the agglomeration of the tea and cashew firms into large state-owned conglomerates. Currently, the cashew, tea, and sugar parastatals are the largest delinquent debtors of the banking system. Further, lack of working capital has stopped factory operation as well as restoration of farm-level production to economic levels of output.

General

Rehabilitation of large NTAE industries, such as cashew and coconut in Mozambique, will likely be very costly and require the joint and well-coordinated efforts of donors, the government, private sector participants, and producers. (CdZ)

Low literacy significantly increases employee training costs and makes it much more difficult to operate and maintain food processing/agribusiness facilities. (Lomaco)

Large agribusiness firms may find it easier to establish their own production in developing countries when technological advances enable intensive commercial agriculture. (CdZ)

The long lead time needed to import supplies significantly increases the risk of export-focused agribusinesses in developing countries. (Lomaco)

Specific to Mozambique

CdZ's pallet kit potential business appears to be a win-win opportunity. SMEs can be formed to cut and deliver trees/logs to the pallet kit–making company. The plantation will be rehabilitated, cash flow will be generated for replanting, and Mozambique will have a significant new source of foreign exchange. This project deserves special analysis by donors to determine how SMEs could be formed, financed, and supported to form coconut tree culling businesses. This is both a short-term (plantation rehabilitation) and long-term (plantation maintenance) opportunity. (CdZ)

Cashew, coconut, and shrimp processing all represent good food and agribusiness opportunities and areas where donor support for industry rehabilitation and/or development would be welcome. (FAO/AgMin)

Interposto is a potential cooperator with whom to investigate the formation of a Cashew Industry development Association or a Cashew Marketing Board. However, their commitment to integrated operations, the diversity of their businesses, and the extent to which they are part of the old "colonial school" may limit their interest in this approach. (Interposto)

Because Lomaco has considerable experience working with outgrower schemes for cotton and is willing to work with outgrowers for tomatoes, they represent a good potential partner for donors to finance and develop outgrower and marketing schemes for tomatoes and possibly citrus. Other large agribusiness linkages should also be pursued. (Lomaco)

Access to Republic of South Africa (RSA) fruit markets will likely require government-to-government involvement, since the primary motivation for the RSA to import Mozambican fruit is political rather than commercial (i.e., trade balancing-based). (Agrarius)

World Vision Mozambique (WVM) has a comparatively poor idea of postharvest NTAE development opportunities. (WVM)

5.2.2 Indigenous SME Development

Indigenous SME development is at the embryonic stage in Mozambique. Large portions of the population have just recently returned to their homes after the long civil war, and much of the country's infrastructure has been destroyed and basic rebuilding is under way. The good news is that many Indigenous SME opportunities exist because there are very few established businesses and because people's first priorities include a reliable supply of reasonable quality food — something that agribusinesses can deliver. Mozambique, except for the southern third of the country, has good growing conditions and good arable land. Therefore, there is an excellent basis for establishing Indigenous SME agribusiness focused on *both* the domestic and export markets. In addition, the existence of several large agribusiness companies, which are remnants of Portuguese colonial days but are in poor condition due to the war, presents opportunities for cooperative ventures between these giants and SMEs to help rehabilitate and provide services to the large agribusiness companies.

Lesson Learned

The transitional difficulties of the GoM may, surprisingly, create an opportunity for SME formation.

The GoM and its parastatals are still in disarray from the civil war and are under continual pressures from the World Bank and the donor community to liberalize and restructure. Further, it is widely agreed that the civil service is not functioning effectively. As in Tanzania, parliamentary democracy is so new that legislators have trouble visualizing what a law is supposed to do or which governmental bodies should be responsible for what. Thus, laws passed by the legislative branch often contradict prior laws, and the resultant confusion neutralizes the government much of the time.

Implications

This confusion can be viewed as a blessing in disguise *if* USAID and other donors take this opportunity to emphasize private sector development of grassroots agribusiness inputs, processing, packaging, and distribution. Outputs from Indigenous SMEs should, in general, not fall within the GoM's purview. There are so many rules and regulations, sometimes conflicting, that it takes a very clever manager to get through the minefield of conflicting laws, bureaucratic proscriptions, and so on. As in Eastern Europe, the collapse of the command economies has left the large state-owned agricultural production and marketing firms in trouble, but has created a major opportunity for new Indigenous SME's.

Lesson Learned

An in-country support network for Indigenous SMEs already exists.

Given past problems and the level of private sector development it is surprising to find a countrywide network, IDIL, already functioning to help Indigenous SMEs prepare credible business plans and requests for loans. Funding for their SME loans comes from the World Bank via the Bank of Mozambique. IDIL itself is funded by SIDA and several other EU donors (but not USAID). SME loan approvals are partially based on IDIL's analysis and recommendations, but the commercial banks take the credit risk. The success of IDIL's SME loans, drawn primarily on the *state-owned* commercial banks, is quite poor (80%+ default rate on loans that have passed the grace period). Their microenterprise loan recommendations are apparently performing much better as *reportedly* 90 percent of the loans are being repaid on schedule.

Currently under the Ministry of Industry and Commerce, IDIL has positioned itself to evaluate and recommend enterprises for financing. It has a network throughout the country consisting of some 80 employees who could be upgraded as screeners and evaluators of prospective enterprises. IDIL agents could function also as entrepreneurial promoters and trainers.

IDIL wants and needs additional funding so it can assume greater responsibility for *ongoing* technical assistance (post-funding) for its client enterprises.

Implications

Through its AMIS II Project, USAID could support and upgrade IDIL's personnel located in the rural areas and could help establish a network of rural FADCs facilitate the formation of agribusiness Indigenous SMEs. If this network could be registered as a financial institution it is quite likely that it would attract funding from the World Bank and other donors.

The USAID Mission could explore the following strategy:

1. Perform a detailed assessment of IDIL's operations, accountability, past performance, and potential to serve as an Indigenous SME development partner. Of particular interest are the reasons for the very high default rate on World Bank SME loans, the success rate of microenterprise loans, and detailed analysis of their sources *and uses* of funds over the past three to five years. IDIL's EU donors should be consulted on these issues. If the results of this assessment are positive, USAID should proceed to the following.
2. Launch an exploratory project (with AMIS II assistance) to specify alternative options for working with IDIL in the agribusiness area. This should identify:

a. What organizational format would be permitted by the Ministry of Industry and Commerce for IDIL participation in FADC management, Indigenous SME funding decisions, operational oversight, and such.

b. Which regions should be given priority for SME development (e.g., Zimbabwe and Nampola).

c. What portion of IDIL's agents have the potential (with and without further training) to competently manage FADCs.

d. What manpower and other resources will have to be added to IDIL to develop and rationally implement the program.

e. Potential roadblocks. With World Bank help, consult with senior levels of the GoM to identify actual or potential roadblocks to the establishment of an FADC network and ways that these roadblocks could be overcome.

f. Potential GoM support. Assess the possibility of gaining GoM endorsement and support (cash or in-kind) for an FADC network project.

3. Determine if there is likely to be enthusiastic or grudging collaboration from the World Bank, SAEDF, and other donors, thus determining if there will be adequate long-term funding with minimal or no restrictions on the structuring of financial packages appropriate for investable enterprises.

4. Assess if and how AMIS II can furnish direct technical assistance to IDIL in order to accelerate and upgrade the general business management and finance training of IDIL's rural agents. Determine if and how the SAEDF technical assistance component can be used.

In essence, USAID could evaluate putting additional resources into IDIL to accomplish two important objectives: (1) accelerate the IDIL agent network's efforts to help train local entrepreneurs and/or to help organize and manage local FADCs to facilitate Indigenous SME formation and (2) create a better vehicle for an expanded IDIL management team to serve both as board members and as stewards of debt from the present donor network *and* equity investments from the SAEDF, World Bank/IFC, and others.

Lesson Learned

A few of the NGOs now operating in Mozambique could serve as SME developers or as part of FADC management in rural areas.

The leading NGOs in the country (CARE, ATI, WVM, etc.) are trusted by much of the rural population because most NGO staff remained in the rural areas even during the worst days of the civil war, doing what they could to support the people in the villages.

Implications

Given this respect and knowledge base, it is reasonable to use one or more NGOs as an additional vehicle or collaborator for SME development. Such participation or collaboration would have to fit a particular NGO's agenda. Therefore NGOs would have to be carefully selected based on the quality and appropriateness of their management and the consistency of their objectives with those of an FADC.

In summary, with a great deal of discipline, the development of FADCs or similar institutions in collaboration with in-country NGOs like CARE and/or WVM and IDIL could be expedient, efficient, and productive.

Lesson Learned

A few large companies are developing approaches that could be used to help establish SMEs in rural areas.

Discussions with three private agribusiness firms brought to light a positive phenomenon, also observed in Zimbabwe. To provide themselves with cost-effective sources of raw product, large private firms are developing mutually beneficial cooperative or collaborative relationships with small growers and enterprises. Three instances of such collaboration are mentioned below.

1. *Lomaco*, a large producer of cotton, tomato paste, and other specialty products, is interested in sharing the development of irrigation and specialty

crop systems with small growers. This optimizes the use of labor, land, and water resources without Lomaco having to own and be responsible for an entire area of infrastructure development. Lomaco is working with some of these growers to secure the supply of tomatoes it needs and, at the same time, the small growers are a good source of referrals for reliable people to become employees in Lomaco's processing plants.

2. *Companía da Zambezia* is a major producer and exporter of coconuts. In the wake of the civil war, major tree cutting and land clearing is needed to replant and rehabilitate the company's plantations after years of neglect. The company is considering a venture, in which it would also invest, whereby new SMEs, substantially owned by local smallholders and/or plantation employees, would cut the trees and deliver them to a company that would produce pallet kits for fabrication into pallets after shipment to South Africa. This would free up company capital to develop new processes for copra and other coconut byproducts.

3. *Entreposto*, under contract from USAID, has distributed a large number of conventional cashew trees to smallholders, and is expending considerable effort to identify and establish a Brazilian dwarf variety in Mozambique. The dwarf cashew is much easier to cultivate and harvest than the larger trees in the present stands. If Entreposto can establish the economic viability of the dwarf cashew, it could help finance the establishment of new stands by small growers in return for some form of purchase agreement, which would offer growers more favorable terms than those of East Indian traders, who are currently the dominant buyers from producers.

Evidence indicates that such large firm Indigenous SME enterprises could proceed without interference from the GoM. The main challenges will be how to structure and finance the new businesses, taking into account that each has quite different agendas.

Implications

The Mission, AMIS II could work with to explore what would be required for Lomaco, Compania da Zambezia, and others to form ventures with small farmers and those in rural areas. Donor participation in the form of technical assistance and seed funding (e.g., from the SAEDF) and development assistance (e.g., from IDIL), could catalyze the formation of a number of significant new Indigenous SMEs. The Mission could assess the potential cost effectiveness of organizing FADCs to support large firm Indigenous SME agribusiness opportunities in the region.

Lesson Learned

The South African market is opening up rapidly.

Not only are South Africa's exports increasing dramatically, but various RSA entities are searching for new sources of supply in Sub-Saharan Africa, as close to South Africa as possible. The RSA also wants to reduce its trade surplus with neighboring countries.

Implications

Opportunities to obtain both debt and equity funding from various RSA entities are beginning to appear. Food and agribusiness-related enterprises should be able to obtain bankable supply contracts from customers in South Africa. Such contracts, which would guarantee a buyer for future production, could be used to secure loans to finance production and operating costs, as well as future expansion. South Africa could in this way become a major market for FADC clients.

In-Country Resources for Indigenous SME Development

Following is a brief review of the resources needed to support SME development and what resources are available or could be developed in Mozambique.

A. Technical Resources

In Mozambique, as elsewhere in much of Southern African, universities, the Mozambican extension service, and other domestic institutions that provide technical help are undergoing severe budget cuts and retrenchment. To help develop rural agribusiness enterprises, a few larger, privately owned companies and some NGOs (e.g., CARE and WVM) seem ready to enlist and train local growers[5] and others as part of their plans for rehabilitation and expansion. The challenge to USAID will be to channel technical assistance to appropriate enterprises *in support of* investable ventures and *not* for the support of more traditional technology transfer programs.

B. Management Resources

IDIL views its primary mission as helping enterprises prepare loan requests,[6] but it also believes that it must train IDIL personnel, located throughout the country, to provide management and other advice to putative entrepreneurs after financing. They are already doing this to a very minor degree in Maputo and, hopefully, will be given more direct responsibility by the lending institutions to whom funding proposals are directed. This added responsibility could involve monitoring and participating in the operation of enterprises that IDIL recommended for funding, possibly as members of the boards of directors.

There are several more conventional (and more expensive) consulting organizations operating in the country, but they tend to sell their services to established large enterprises or various governmental bodies. The few NGOs, such as CARE, that see their emergent role as stimulating profitable rural enterprises, could well become an important vehicle to provide staff and facilitators for rural village or regional Indigenous SME development, augmenting IDIL's capability. Given the level of trust of the leading NGOs by virtually all parties, this possibility should be carefully explored in the near term.

C. Financial Resources

IDIL, which was established primarily to prepare and recommend enterprises for bank financing, is apparently the only Mozambican institution with such a charter. The World Bank is the only current source of Indigenous SME financial resources, a source that may not be available after the two state-owned banks are privatized. The World Bank is willing to provide funds to registered financial institutions willing to take the credit risk, but few intermediaries are currently willing to do so.

D. Market Information/Intelligence Resources

Except for the aforementioned larger consulting firms and IDIL's due diligence on particular venture proposals, reliable market information, is difficult to obtain except for that on large-volume, conventionally traded crops.

Other Observations

1. An acute problem, brought on by the war, is the very low level of literacy in Mozambique. As government redirects its priorities, it is clear that a large concerted effort to develop the entire educational system is required.

2. It was reported that women in Mozambique play a key role in business formation and management. More precise information is needed concerning the role of women in Mozambican development. IDIL apparently has trained many women in management, finance, and so on.

3. The findings presented above are necessarily general given the limitations of time imposed by the *Innovative Approaches* activity in Mozambique. It was difficult to obtain quantitative data from the firms, agencies, and entities interviewed. The positive findings of this research should be followed up in depth if there is interest in moving in the directions suggested.

Lessons Learned

Indigenous managed micro and SME formation and development programs can succeed, even in very difficult environments, if they are properly managed and donor relations are carefully managed. (IDIL)

There is a unique opportunity to help establish community-level Indigenous SMEs shortly after the change from socialism and parastatal-managed marketing to a private enterprise-based economy. Highly pragmatic and well respected and managed PVOs such as CARE and WVM can be used by donors to support the transition from state controlled to a private sector based agribusiness. (CARE)

Specific to Mozambique

IDIL's provincial network is an excellent model of how to combine local presence with good analytical skills and donor relations to stimulate the development of micros and SMEs. Donor help in developing this provincial network would be a good use of funds. (IDIL)

The World Bank is constrained in its ability to disburse its very significant funding and implement its projects by: (1) the limited institutional capacity of the intermediaries it must work with, especially the state-owned banks; and (2) the limited ability of potential beneficiaries to apply for financing, develop viable business plans, and manage SMEs. Funding opportunities will be further constrained with the privatization of the two state banks that have disbursed (but not collected) most of the World Bank's SME loans. (WB)

WVM's programs in rural SME development, agricultural marketing, and credit are in the early stages of development and may need considerable outside assistance to establish, given the PVO's traditional technical and production agriculture focus. The demand side of Mozambican agribusiness needs to be better understood by WVM for them to develop highly relevant programs in postharvest agriculture. WVM seems to represent a potential partner for USAID to cooperate with in postharvest development. WVM has a good network in agriculture-based provinces, very good beneficiary and GoM credibility, and *USAID has significant experience in agribusiness development*. However, WVM's lack of market orientation will have to be overcome. (WVM)

Implications

USAID should consider the following:

1. Conduct investigations of the opportunities listed under Lessons Learned and Implications that are consistent with Mission objectives.

2. Canvass other donors, particularly the private sector funding groups at the World Bank, for interest in joining with USAID in one or more of these opportunities.

3. Discretely explore the identification of potential GoM roadblocks.

4. Develop proposals (with AMIS II help) for World Bank Private Enterprise Fund, SAEDF, and others joint projects; particularly both equity and debt financing for new Indigenous SMEs related to food and agribusiness.

5. Test several approaches to agribusiness enterprise facilitation.

5.2.3 Association Development

Only one relevant association (Agrarius) was identified, and it has just been organized. There is, however, considerable potential for the development of agribusiness associations as a means to (i) organize entrepreneurs interested in developing certain subsectors, (ii) help balance the power of the large cashew, coconut, and sugar processors through effective resources, (iii) stimulate the development of high-potential subsectors, and (iv) involve the private sector in the development of optimal agribusiness policies and other enabling environment conditions.

New associations must achieve a detailed understanding of members' priority needs and develop highly efficient programs to serve the *highest* priority needs. Because of limited resources, new associations will have to focus on a *few, high positive impact* member services. (Agrarius)

Producer associations can develop in difficult economic and political environments. However, their ability to provide members with the needed production, and especially postharvest, services will be dependent on outside financial and managerial support. (Agrarius)

Agrarius represents an excellent opportunity for donor support. It is grassroots-based, is located in an area that needs considerable agricultural/agribusiness development, and members need help to break into the RSA market. Agrarius also needs considerable support in postharvest areas, especially for fruit, since there is no commercial entity currently available to collect, grade/sort, package, and market the output. However, caution should be exercised as related to the interests of the fruit growers versus other members. The fruit growers are larger and have more specialized interests, so fully integrating them into the larger association and keeping them there will require careful management. Agrarius has apparently not stimulated any negative reaction on the part of the GoM, but given the GoM's many other problems, significant government help for Agrarius is unlikely. (Agrarius)

5.2.4 Financial Services Development

Mozambique has a very underdeveloped financial sector, consisting of three private and two state-owned commercial banks. The state-owned banks are in the process of being privatized (losing their subsidies and government guarantees), which will have a dramatic effect on their operations. The three private banks are very conservative, which is not surprising considering the business/credit risks and very undeveloped legal environment, and then loan primarily to well-known and established customers. The People's Development Bank (formerly the Agriculture Bank) is one of the two state banks through which the World Bank has disbursed SME loans. Two new financial institutions have recently been granted licenses, the UAL division of EDESA, which focuses on leasing, and Credicoop. These new entrants and the privatization of the state banks may add commercial vitality to the financial sector.

Equity/collateral limitations are the major initial constraint to both micro and SME formation in emerging private sectors and agribusinesses. Sweat equity and in-kind contributions can help offset this constraint, but cannot overcome it. Government guarantees for initial entrepreneur equity may be a source of assistance, but this needs to be closely monitored due to the tendency for government involvement to lower the perceived need for repayment. Reasonable availability of funds will stimulate micro and SME formation, but TA and management assistance will then be needed for them to be successful. (IDIL)

In embryonic financial sectors it is difficult for donors to find effective financial intermediaries to help develop the private sector, especially agribusiness and Indigenous SME. State-owned/controlled banks usually have weak loan appraisal and recovery capabilities and private banks must operate very conservatively, which means they have minimal interest in agriculture or SME-related financing. (WB)

Limitations on a beneficiary's ability to apply for financing and develop the needed supporting documentation, including a business plan, constrains the ability of donors to disburse development finance. (WB)

Community-based group lending programs are an alternative to local traders' control of commerce, cash flow, and informal lending. But, group lending projects in societies evolving from socialist models will require much education and training given the prevailing attitude that loans do not need to be repaid. (CARE)

All credit projects should include a savings component as a means to generate funding for future loans. (CARE)

Trade finance is a very common private sector development constraint in economies emerging from socialist systems. (WB)

5.2.5 Monitoring and Evaluation

In general, USAID places much more emphasis on formal M&E systems than do other donors. That portion of their support that is for improving Mozambique's balance of payments is coordinated with other donors and the World Bank and uses progress on conditions precedent as an impact measurement. For their projects and project-related activities it is quite unusual to use macroeconomic measurements to assess the impact.

Most donor projects in Mozambique have focused on resettlement, emergency feeding (especially children), and road building. In emergency situations and where very basic services are being provided, formal M&E systems tend to give way to expedient actions to resolve very obvious and basic problems.

M&E considerations for SME development projects include: the extent to which community-level (versus regional-level) processing and trading enterprises develop and the extent to which enterprises evolve from pure trading and toll processing to principal processing and adding value. (CARE)

The more effectively managed the organization the more specific its M&E programs. (All)

The M&E used by most local PVOs involved in SME development is rather casual, but includes the number of proposals screened, number recommended for funding, amount of funding approved, the success of funded enterprises (if there is ongoing involvement), and the continued support of donors. (IDIL)

International PVOs' M&E systems are often based on a review of annual accomplishments versus previously established objectives. (WVM)

Group lending project M&E considerations include unit transaction costs, the repayment rate, the sustainability of the credit entity, growth in the capital base of entities, and the savings rate of their members/clients. (CARE)

5.2.6 General Recommendations

The following recommendations are relevant to the overall *Innovative Approaches* activity in Mozambique, but do not fit under the above categories.

General

High Perceived Impact

- Projects based on a well-established donor capability have good prospects for success. Conversely, donors should approach new development areas with considerable care, and possibly in cooperation with other donors who have experience and competence in that area. Therefore, the apparent success of a production agriculture–focused donor agency or PVO does not mean that it will be able to successfully evolve into postharvest development, especially without considerable outside assistance. (WVM)
- In situations of emerging democracies and free market systems, unique opportunities for cooperation on agribusiness development between the private sector and donors may emerge, often with considerable mutual benefits. Managers of private agribusinesses can be used to identify high-yield business and geographic opportunities, and can often be effective partners in developing these opportunities. (CdZ)
- Donors can use their experience in more developed industries to help rehabilitate industries destroyed by political strife and/or civil war. (FAO/AgMin)
- Large agribusiness companies represent a good way for donors to leverage their agribusiness and infrastructure development efforts in rapidly evolving countries, especially when the agribusiness firm is ready and willing to cooperate on projects of mutual benefit and interest. (Lomaco)
- Pragmatic leadership and good donor relations will help PVOs and other intermediaries survive very difficult political and economic conditions. Staffing senior project management positions first will enable more local input into design refinements and lower level staff selection. Professional management and a strong interest in localization of most operating positions will enable projects to get off to a solid start. (IDIL/CARE)

Medium Perceived Impact

Shortly after the shift from socialist to democratic systems is a good time for donors to determine where they have a comparative advantage to assist agricultural ministries in their important work. At that time the ministry is often quite open to ideas and will cooperate with well thought out programs. (FAO/AgMin)

Conduct a careful and multidimensional viability analysis before choosing the geographic area for a project or activity. (CARE)

Red tape can be very prevalent and a significant constraint to project implementation as well as private sector development, especially in emerging democracies. (WB)

Specific to Mozambique

Due to the specific skills required in agribusiness and the substantial need for agribusiness development in Mozambique, a donor-supported, agribusiness-focused division of an entity such as IDIL should be investigated. (IDIL)

The World Bank has a serious interest in Mozambique and has allocated considerable funds to projects relevant to private sector, agriculture, and agribusiness development. The World Bank is an ideal partner for helping USAID to leverage their scarce resources. (WB)

Southern Mozambique has a serious food deficit, and sustainable production and marketing enterprises in this area, (e.g., Agrarius) need to be encouraged. (Agrarius)

WVM's ARP program appears to be quite successful in stimulating improved production and is beginning to develop community-level self-direction. It should be assessed in detail for lessons learned and implications for USAID and as a potential jointly supported project. (WVM)

5.2.7 Key Issues

The following issues are sufficiently important to agribusiness development in Mozambique that an effort should be made to try to resolve them.

General

There is a need to investigate why Mozambican cashew producers receive a much lower portion of the export value per kilogram than do Tanzanian cashews producers. Then a program must be developed to increase the producers' share. (WB)

Specific to Mozambique

The alternatives for and cost of rehabilitating CdZ's coconut plantations, with significant smallholder participation, should be investigated. How would small portions of the plantations be "turned over" to smallholders? How would the TA necessary for replanting and managing new varieties and production methods be transferred? How could CdZ be financed to provide the smallholders with needed inputs such as seedlings, fertilizer, and crop protection chemicals? How can SMEs be formed to support the rehabilitation and ongoing successful operation of CdZ's coconut plantations and coconut processing operations? (CdZ)

5.3 USAID MOZAMBIQUE AGRIBUSINESS DEVELOPMENT RECOMMENDATIONS

Goal–Increase rural incomes.

Geographic Focus–Nampula and Zambezia Provinces

Objectives

1. Develop the cashew subsector in Nampula and the coconut sector in Zambezia in a way that benefits small producers and agribusiness SMEs.
2. Encourage and support the use of cash earned from coconut and cashew activities in coastal or near coastal areas to buy maize produced in the interior.

Methodology/Mechanisms

1. Use association development and linkages between large firms and SMEs and small producers as two of the main mechanisms for stimulating cashew and coconut development. This may include using SMEs as subcontractors or alliance partners, and small producers as outgrowers or contract producers linked as individuals or in groups such as associations, SHGs, or cooperatives.
2. Establish effective partnerships with:
    a) PVOs to help accomplish the NTAE development and association development objectives in rural areas.
    b) The World Bank to help finance new or expanding SMEs related to coconut or cashew development.
    c) IDIL and its Nampula and Zambezia branches, *if* it is determined that they have both the competence and interest, to support USAID objectives and operating procedures.
3. Determine the feasibility of a Cashew development Center in Nampula and/or a Coconut development Center in Quelimane to carry out the following:
    a) Assess the world market, internal, and competitive situation and help determine the optimal strategies and structures needed to develop a highly viable industry; then act as a catalyst to help implement the strategies and institutional structures (associations, promotion council, extension, applied R&D, etc.) needed for success.
    b) Offer association development services to producer, processor, or marketing groupings, but *preferably* to vertically integrated associations, to help them organize, develop business plans and member services programs, establish operations, and sustain themselves.
    c) Provide integrated services to producer groups and SMEs related to the cashew/coconut business consisting of: (1) financing, both debt and equity (for formal firms)

and in special cases *matching* grants, (2) technical assistance (production, processing, etc.), (3) management assistance (business planning, financing application, marketing, financial control, etc.), and (4) if deemed necessary and feasible, shared fixed assets such as office space and services and transport equipment.

d) Identify enabling environment improvements necessary for industry success (such as reducing red tape) and work with the association and the government to achieve the necessary enhancements.

e) Determine what else is needed for subsector success such as industry-level quality assurance systems, market development/promotion, applied research in varietal development, cultural and processing practices, and full crop utilization and human resource capacity-building at all levels of the industry. This determination would include deciding who provides what is really needed and how it will be paid for.

f) Employ full-time professionals with extensive successful experience in disciplines such as: (1) coconut/cashew production and input supply, (2) postharvest activities such as grading, sorting, processing, and packing (3) coconut/cashew products marketing, (4) financing of all types, and (5) SME, association, and development center management. The number of these professionals and their disciplines would be demand driven and determined by a development center feasibility study. All expatriate professionals would have local counterparts.

g) Offer one-stop-shopping for clients' business development needs and use both its own internal resources as well as those of a well-established network, both domestic (e.g., World Bank, IDIL, CARE, World Vision, Interposto, Compania da Zambezia) and international (e.g., SAEDF, EDESA, APDF, IFC), of alliance partners who have agreed to support the center with technical, managerial, and development assistance.

h) Be financed initially by donors and other interested parties (e.g., long-term investors for equity) but with the objective of becoming self-financing in three to five years by charging fees for management and technical services, by a spread on debt and the gain on equity sales, and by rental income on fixed assets in excess of costs.

i) Development of the domestic and international support network would be a prerequisite to development center formation and operation.

6. Tanzania

Tourism, agribusiness, and mining are the major growth areas in Tanzania. However, investment in these areas, as well as in the economy generally, has lagged behind expectations. Economic reform commenced in 1986 and there has been some progress such as the licensing of foreign banks, liberalizing interest rates, and instituting a market-based foreign exchange system. Transition to a market-based economy, however, is still far from complete. Despite the fact that much of the requisite policy framework is in place, expected revenues associated with export growth have not, except for NTAE from the Arusha area, materialized as hoped. The problem is that implementation of the new policy framework is both politically and functionally difficult.

Poverty, disruptions to, dislocations of, and an outright reduction of what was once seen as guaranteed life employment[8] have created much stress in the country. Politicians, civil servants, and the general population all face great uncertainty and difficulty in this time of economic and political transition.

Donor support remains strong for the Government of Tanzania (GoT), accounting for some 60 percent of Tanzania's development budget. Yet donors, led by the World Bank, are continuing to push for tough fiscal measures to limit ongoing extra-budget government expenditures. These measures are required to sharply reduce the continuing growth of the annual budget deficit.

Collaboration and cooperation between Tanzanian agencies and the donor community was much more evident than between donors and similar institutions in Zimbabwe and Mozambique. Private sector banks (e.g., Standard Chartered) have not yet moved away from portfolio management based on short-term debt and routine trade facilitation for their clients from other countries. In fact, it is the donor agencies, Tanzania development Finance Limited (TDFL), and new Tanzanian firms and institutions that are most supportive of private sector development.

Agricultural production, processing, and marketing continue to dominate Tanzania's economy, accounting for 50-60 percent of GDP over the last three years. Although drought conditions are expected to continue in some regions, a number of large- and small-scale irrigation projects are under way to make the country less dependent on rainfall. A growing awareness of the opportunities for non-traditional agriculture has resulted in major recent increases in the export of flowers, vegetables, fruit, and fish.

Privatization and the relaxation of rules concerning foreign ownership have had a significant impact. International firms are buying former state-owned processing facilities and upgrading production to be globally competitive in price and quality. The net effect is that farmers tend to receive more for their crop, being rewarded for the extra effort it takes to produce a top-quality product.[9]

6.1 ENTITIES SELECTED FOR STUDY

Agribusiness in Tanzania is in a much earlier stage of development than in Zimbabwe and, for different reasons, more nearly resembles that in Mozambique. Julius Nyrere, president "emeritus," had created a paternalistic socialist society that was antagonistic to private enterprises (which he nationalized), because private enterprise was a reminder of the former colonial "oppressor," the British, and before them, the Germans. Continuing increases in government spending eventually bankrupted the country. The current regime, reversing direction, invited back former UK "flag" firms, such as the Standard Chartered Bank, but so far without much impact. It is the very large, unrecorded, "informal" sector that provides the majority of income for most non-farm families. With GoT absorbed by its macro problems there is a favorable climate for private sector SME development.

Nine donor-supported innovative projects, two associations, five development finance companies and banks, and three private agribusinesses were selected for case studies.[10] In the following list the supporting donor, if any, is shown in parenthesis.

Projects:

ATI — Appropriate Technology International (Tanzania Swiss Trust Fund and others)

APDF — Africa Project Development Facility (IFC)

TBC — The Business Center (USAID)

GTZ — German Technical Cooperation (German government)

NEVEPA — Network Vegetable Production Africa (GTZ)

SIDA — Swedish International Development Authority (Swedish government)

SATF — Social Action Trust Fund (USAID)

TechnoServe — TechnoServe Tanzania (USAID and others)

World Bank — The World Bank (multinational)

Associations:

CTI — Confederation of Tanzania Industries (SIDA and others)

TANEXA — Tanzania Exporter's Association (some indirect USAID)

Development Finance Organizations:

1st Adili — First Adili Bank (some USAID)

LAKE — Lake Zone Small Business Support Project (ODA)

StanChart — Standard Chartered Bank Tanzania Limited

TDFL— Tanzania Development Finance Limited (various EU donors)

TVCF — Tanzania Venture Capital Fund (various EU + some early USAID support)

Private Agribusiness Enterprises:

Sluis Bros. (E. A.) Ltd.

Sun Flag (Tanzania) Ltd.

TISCO — Tanzania Industrial Studies and Consulting Organization (GoT)

Most of the above entities have multiple areas of focus (see Table 6.1). Therefore, an assessment of each project, association, financial institution, and private organization was performed for each innovative project Area of Focus.

6.2 LESSONS LEARNED AND IMPLICATIONS FOR USAID PLANNING

In the following sections, lessons learned and implications for USAID planning derived from analyses of the profiles presented in Appendix C are presented by key area of focus. Each section is divided into general lessons learned and implications and those that are specific to Tanzania.

The lessons learned and implications are listed in a rough order of priority based on the anticipated positive impact on USAID objectives and operations if they were to be successfully adopted, and, for the general sections, the extent to which the lesson learned or implication is broadly applicable, that is, applicable to SSA agribusiness projects in general. This prioritization is subjective, but represents the studied opinion of the research analysts and draws upon their many years of experience in agribusiness development in developing countries.

The *primary* source of the lessons learned or implication is shown in parentheses.

6.2.1 Non-Traditional Agricultural Export Development

The volume of NTAEs from Tanzania is quite small but growing rapidly. The Arusha/Moshi area is leading the way based on its favorable growing conditions, access to both the Kilimanjaro and Nairobi airports, as well as its proximity to the technical and managerial assistance and other business services in Nairobi. Reportedly, there are a *considerable* number of but fledgling contract and/or outgrower arrangements in

Table 6.1 Tanzania Innovative Entities and Their Areas of Focus

Project/ Association/ Financial Institution	Association Development	Financial Services to Agribusiness	NTAE Promotion	SME Development
Projects				
ATI	No	No	No	Yes
APDF	No	Yes	Indirect	No
BC	Yes	Indirectly	No	Yes
GTZ	No	Indirectly	Indirectly	No
NEVEPA	No	No	Yes	No
SAT	No	Yes	No	Yes
SIDA	Yes	Yes	No	Yes
TechnoServe	Indirectly	No	No	Yes
World Bank	Yes	Yes	Yes	Some
Associations				
CTI	Yes	No	No	Some
TANEXA	Yes	No	Yes	Yes
Financial Institutions				
1st Adili	No	Yes	No	Yes
LAKE	No	Yes	Minimal	Yes
StanChart	No	Yes	No	No
TDFL	No	Yes	Indirectly	Minimal
TVCF	No	Yes	Indirectly	Yes

the Arusha/Moshi area. Several other locations (e.g., in the Lake District located on the shores of Lake Victoria with access to three neighboring countries and representing the second largest population center) also appear to have good NTAE potential. Given Tanzania's serious balance-of-payments problem, the importance of agriculture (50-60 percent of GDP) in the economy, and the apparent potential and initial sources of current efforts, NTAE development merits very serious assessment as a significant component of USAID's economic development strategy in Tanzania.

Lessons Learned

High Perceived Impact

- SMEs will be best able to participate in higher value NTAE business if they are able to share expensive fixed assets and consolidate their output and marketing efforts. (WB)
- More than 50 percent of the imported vegetables sold in the EU are imported by wholesalers for the large supermarket chains. These chains have very strict quality and phytosanitary specifications, explicit timing requirements, they buy in large quantities, and often require retail packaging at product origin. Participation in this large NTAE business by SSA exporters requires tight control, considerable scale of operations, and *close linkages* with these big EU importers. Also, the EU horticulture and floriculture market will continue to be well supplied, therefore only those competitors with high quality, high yields, a consistent supply, and low labor and transport costs will survive. (WB)

Some propositions from innovative entrepreneurs with an intimate knowledge of locally available raw materials and a reasonable understanding of international markets deserve further evaluation, especially where they can have a significant *broad-based* local impact. (Sun Flag/Sluis)

When locals are risk averse and inexperienced in NTAE production and marketing the best way for them to develop is via outgrower or subcontractor relationships with large, experienced firms. (NEVEPA)

The shortage of working capital and a poor transportation system are two major constraints to NTAE development. Because of the importance of transport costs to NTAE (30-40 percent of the landed price), air, freight, and to a lesser extent sea freight, costs must be very competitive. For air freight, this is significantly dependent on passenger traffic volume. Other important constraints to export development in general, and to NTAEs specifically, are *poor performance* (especially very slow clearance) of the customs service, inadequate enforcement of tax laws, and excessive customs duties on inputs that are to be reexported. Also, a shortage of high-quality planting materials and other input supply inadequacies, as well as a limited domestic market for off-specification production constrains the development of NTAE businesses, especially those involving SMEs. (CTI/SIDA/WB)

Medium Perceived Impact

A reasonable level of private sector technical and managerial expertise is a prerequisite for successful NTAE development, and that development will be significantly constrained until this expertise becomes available on an ongoing basis. (WB)

Countries with traditional or ethnic-based ties to medium-size markets should consider using these connections as a basis for export development, *along with* major markets. (TANEXA)

NTAE associations need a core of actual exporters; success will be in doubt if members are predominantly "want-to-be" exporters or non-exporting producers. (TANEXA)

Lower Perceived Impact

After a socialist government leaves power, the new government must determine quickly how to best promote export-oriented industries and must reduce dramatically the regulation, control, and monitoring of most exports. (SIDA)

Tanzania Specific

NTAE opportunities exist in cashew and sisal products as well as in high-value specialty products such as fennel, coriander, and organically grown planting seeds and finished products, but strong, ongoing relationships with destination country importers are needed to capitalize on these opportunities. (StanChart/Sluis)

A more detailed assessment of the opportunities for producing and exporting specialty oils from the Arusha/Moshi area has considerable merit. (Sun Flag)

The success of NTAE outgrower arrangements in the Arusha/Moshi area should be further investigated. (Sluis)

Floriculture and grain milling appear to be good agribusiness opportunities in Tanzania, the latter created by the reduced role of state marketing boards. (TDFL)

Implications

- A donor-supported mechanism is needed to determine the feasibility of local entrepreneurs' NTAE development proposals, especially those that have the potential for broad-based positive input.
- A mechanism should also be developed to tap the experience of the few successful NTAE entrepreneurs in a given geographic area, and with their help determine how to accelerate the rate of agribusiness development in that area.
- When an NTAE development project is mature enough for management to understand which subsectors have the most potential to support their objectives, they should have the flexibility to target some of their resources on these sectors.
- Before providing support to an NTAE association, donors must determine how much export experience association members have, their export opportunities and potential, the status of the export-related enabling environment, the extent to which association organizers and leadership understand members' priority needs and have viable programs to serve these needs, and the quality of association management.
- Developing local counterparts and the effective transfer of project/activity know-how from foreign advisors to locals is *essential* for sustainability, and must be a key component of all projects.
- Assessing the basis for successful NTAE development efforts in similar countries, especially competitors, should be one of the first steps in any NTAE development program design process. Ongoing M&E of these countries' comparative NTAE development strategies, structures, and progress would also be beneficial.
- Donor-supported projects can and should support the development of pragmatic NTAE development entities (e.g., associations, cooperatives, networks, financial institutions) but if the beneficiaries of these entities are not themselves well established and viable they will not support the entity after donor assistance ends. A key criterion for any institutionalized approach to enterprise development is that the institution, whether an association, a cooperative, a network, an ASC, or a financial entity, has a clear and believable plan to attain financial sustainability and independence, after three to five years of support from the donor community.

NTAE training, donor-supported or otherwise, that is followed by supplying trainees with the key inputs needed to apply the training (e.g., planting materials) will be much appreciated by the beneficiaries.

6.2.2 Indigenous SME Development

While Tanzania is desperately poor and the government is in disarray, liberalization and restructuring have advanced to the point where the climate for private sector development is reasonably positive. The international donor community, led by the British (ODA/CDC), the World Bank, USAID, and several others, has been able to persuade the GOT to permit a broad array of initiatives to stimulate private sector and Indigenous SME development. Quasi-government agencies, including TDFL have joined in. Of great relevance to the *Innovative Approaches* activity is the establishment of the Tanzanian Venture Capital Fund (TVCF), in which TDFL, CDC, and other EU donors invested, and its management company (EIM), which is 40 percent owned by CDC.

The previous Nyrere regime in Tanzania was paternalistic and socialist, and it was in power for such a long time that most citizens are not sure what is meant by a "market economy." There is, however, a large and flourishing informal economy composed predominantly of Indigenous SMEs. While it is hard to accurately judge its size, it is quite significant. It is run on a cash basis and pays no license fees or taxes, as most activity takes place "on the street." A major economic development challenge for Tanzania is to harness this legally invisible Indigenous SME entrepreneurial energy without stifling it.

A major constraint to private sector agribusiness development is the inadequate internal infrastructure. There is no national power or telecommunication grid and the roads, even between the major population areas, are few and are not in good shape. The few trading centers outside Dar es Salaam interact and trade more with neighboring countries than within their own country.

USAID's carefully structured projects are noteworthy because they leverage available funds to reach a larger SME entrepreneur population than most similar projects elsewhere. This leverage is accomplished by training business advisors and consultants to assist entrepreneurs engaged in start-ups, diversifications, and expansions. When working with the USAID-supported Business Center, a consultant's fee is soon tied to his client's ability to secure commercial funding from a new bank, First Adili, using a new loan fund (RMPS) provided by USAID. However, much more effort is needed to bridge the gap between SME entrepreneurs and the resources needed for enterprise formation and sustainability.

Even with the relative isolation of the interior from the urban areas, some regional economic development is proceeding. Other sections of this report cover NTAE and related developments in the Arusha/Moshi area. Additionally, CDC is establishing a regional development project in Mwanza in the Lake Victoria area, providing equity and investment application/business plan development assistance.

Despite the constraints of poverty, lack of infrastructure, absence of communications and electricity, and lack of understanding of all but the simplest business principles, prospects for the formation and support of Tanzanian Indigenous SMEs is favorable.

High Perceived Impact

Lack of experience on the part of entrepreneurs and managers and a lack of management training is a *major* constraints in the early stages of private sector development, especially for SMEs. These constraints are more severe than technical skill shortages. Very limited equity availability is also viewed by donors and SME entrepreneurs as a major constraint to SME development. Inadequate infrastructure (especially power, telephones, and roads), high duties on imports, lack of access to finance (especially to pay for needed imports), poor local business services and input supplies (especially packaging), and competition from imports that often pay no duty are also important to SME development constraints. (StanChart/TechnoServe/LAKE/ Sluis)

Micros, SMEs, and even local government entities find it difficult to pay for anywhere near the full cost of business advisory services, especially those where the provider is not able to leverage expensive staff. (TechnoServe)

If SME entrepreneurs must work with several different institutions to source business support needs, (e.g., financing, technical assistance and managerial advise) the burden on them is much greater, paperwork is much more complicated, and problems are associated with coordinating the assistance much more likely. (1st Adili)

Medium Perceived Impact

New SME development entities (e.g., associations, cooperatives, corporations) that are established to capitalize on opportunities or resolve problems caused by the reduced role of parastatals must remain flexible in structure until the best form of organization, based on local laws and participants preferences, can be determined. (TechnoServe)

A prevailing low level of education makes business management training much more challenging. (BG)

When the dominance of the parastatals in business is diminished, new SME opportunities should emerge. (SAT)

Lower Perceived Impact

Microenterprises have a special need for *ongoing* assistance to properly manage the many aspects of their businesses. (ATI)

Micro enterprise development projects *can* move toward self-sustainability. T-PRESS should be closely monitored to determine which parts of its sales organization are becoming self-sustaining and which parts continue to require subsidization. (ATI)

Implications

Because lack of business management skills is usually one of the greatest constraints to SMEs in underdeveloped private sectors, and local consultants in these environments are unaccustomed to providing pragmatic business services a donor can effectively leverage its resources in these circumstances by focusing on developing local business consulting capacity.

There is a strong role for USAID to sponsor an activity to help develop and package proposals and business plans for entrepreneurs seeking financing. This could be accomplished via training support and mentoring for the local entities interested in providing this service; possibly modeled after USAID-supported training provided to AfDB's new private sector development unit officers. A partially integrated approach to SME development is donor-provided special funds to (1) help SMEs apply for financing from donor-supported projects and (2) develop local business services capacity.

Projects that effectively support clients, especially SMEs, at a reasonable cost may have difficulty "graduating" these clients as their needs for business services expand and change as their businesses grow and face new challenges. Turning these clients over to qualified local consultants will enable the project to expand its coverage and reach. However, the more developed the client, especially if they are exporting, the more sophisticated their consulting needs. Therefore, local consultant training needs to be an ongoing component of SME development projects.

For donor-supported financial services projects where SMEs are to be the beneficiaries, financing will likely have to be preferential rate money, and fund management costs will likely have to be subsidized, since serious "hands-on" management support of the investments both pre- and post-financing will be needed.

In environments with very few models of successful private sector enterprises, an SME development program that links new entrants to the few successful current participants will increase the rate of SME development by creating more models and mentors. This would include subcontractor and other very localized SME development activities sponsored by successful large private sector firms.

Country- and location-specific studies are needed to identify and prioritize SME operating constraints to high-opportunity subsectors. Associations, cooperatives, self-help groups, and local NGOs are often useful in resolving specific individual constraints and communicating with policymakers to address problems associated with the enabling environment. Technical and managerial assistance must emphasize adaptability to changing local and subsector-specific conditions and *demand-driven* solutions. Program design must include periodic assessment of impact and demand to evaluate and improve practices.

In societies emerging from socialism or with very undeveloped private sectors, training business reporters may be a good way to increase the general population's knowledge and understanding of market-led, private sector-based business.

In underdeveloped private sectors dominated by informal firms an SME development project may need to seek potential clients by effective networking versus waiting for them to "walk in."

Wherever possible a supported SME development entity's board and management should be selected on the basis of both integrity *and* successful business experience.

Lesson Learned

There are severe limitations to entrepreneurs' ability to organize, finance, manage, and otherwise convert ideas into sustainable enterprises.

There is a major gap between what an entrepreneur, or his/her consultant-advisor, thinks is a good idea, and what it takes to convert that idea into a credible, investable business plan and, later, business success. This lack of knowledge is as severe for operating companies interested in expansion or diversification as for start-ups.

For example, TDFL reports that it will have trouble placing more than US$3–4 million of the US$15–20 million it has available in 1995 even though it organized an internal consulting group to help applicants prepare funding requests. Similarly, TVCF screened an inordinate number of enquiries (in excess of 1,300) to perform due diligence on 43 proposals, funding some 13, of which 8 or 9 so far appear solid. TVCF still has more than US$4 million in equity it can invest if viable projects can be identified.

Implications

USAID can easily justify supporting managerial development training as part of any technical assistance project. The major issue is to keep it tightly focused on the skills needed in the types of enterprises actively being considered or under development. Emphasis should be placed on helping entrepreneurs develop viable business plans and apply for financing. Expansion of, or subcontracting to, the USAID-funded the Business Center is an attractive alternative when the locus of activities is near Dar es Salaam.

Lesson Learned

Led by foreign donors, there is considerable support for private sector start-ups and expansion.

There does not seem to be any opposition by the GoT to private sector entrepreneurship. In terms of the overall need, current Indigenous SME development efforts are small, but should set the pace for the country's rejuvenation for years to come.

Implications

The time may be at hand for USAID to work more closely with CDC, other donors, TDFL, and others to create development centers that could focus largely on food and agribusiness in rural areas.

Lesson Learned

The financial resources appear to be available to fund *larger* enterprises.

- Two institutions, TDFL and TVCF, should be regarded as harbingers of the future, with TDFL having excess debt capacity and the ability to invest some equity in larger enterprises, and TVCF with the ability to furnish equity.
- Certain institutions (TDFL and TVCF) have funds for investment of lending but have trouble finding entities to finance.
- USAID funds made available through First Adili Bank for clients of The Business Center are for small scale enterprises with credible business plan.
- World Bank is having trouble finding a vehicle through which its $27 million private sector enterprises fund in Southern Africa can be responsibly invested.

Implications

Because both debt and equity are already available for medium and large projects from *development-oriented* institutions, what is now needed is a *fully integrated* development service for SMEs.

The British-sponsored LAKE project, with its somewhat *integrated* approach to area development, is a useful model. The LAKE project integrates technical assistance with financial packaging assistance and provides equity for investment and operating capital. In addition it supports the development of the business services needed by new enterprises in areas such as accounting, management consulting, and law.

Lesson Learned

The Government of Tanzania will play only a minor role in near-term private sector development.

Other than resources supplied by donors through government agencies, most Tanzanian government entities are too caught up in their own problems to pay much attention to events outside their immediate purview. The entry of private firms into the traditional agribusiness sector as well as into the burgeoning NTAE subsector is so new that government policies and departments are, to a great extent, not involved.

Implications

Surprisingly, for a country that was ruled until very recently by a paternalistic socialist regime, there is not likely to be any significant barrier to securing financial support for well thought out proposals, either for institutionalized development (e.g., FADCs) or for private sector individual Indigenous SME formation. As far as GoT approvals are concerned, donors can run interference for their programs with GoT, clearing any formal GoT requirements. Otherwise, establishing projects such as FADCs appears to be limited only by the ability of proposers to set forth credible plans.

It is very important that USAID simplify its procedures so that it can take advantage of the current lack of government barriers to development of the private sector enterprises. The rather succinct presentation prepared by CDC for its Lake Zone project is a good example of a project where USAID might be able to play a valuable supporting role.

Lesson Learned

An institutional base for countrywide Indigenous SME development is lacking.

At present there is no institutional or government base in Tanzania on which to build a countrywide Indigenous SME or agribusiness development system. What would it take to coalesce the various parties and interests to facilitate a broad base of support for Indigenous SME development and sustenance? Such a support base or network would help Indigenous SMEs grow to the point where they are perceived as "investable" or creditworthy by banks, investors, and TVCF and TDFL. A priority for such a countrywide network should be Indigenous SMEs or ASCs primarily concerned with food and agribusiness.

Implications

The donor community, including the World Bank, prefers to work on a project-by-project basis. A donor intent on its purpose moves ahead, and if others are interested, there are almost no official or formal barriers to joining the initiator; although to date, only a few EU donors appear to be working together. Formation of TVCF and TDFL is an example. The British (CDC/ODA) took the lead (USAID furnished technical assistance to TVCF) and started both. Other EU donors joined later. The new LAKE project is still entirely British but other donors may be added to provide other services as it develops.

The isolation of Tanzania's major cities and towns from each other suggests that, in the near term, it would be difficult to establish countrywide networks of related programs. The most practical current approach to Indigenous SME facilitation involves discrete projects with sharply focused objectives and clear agendas.

Lesson Learned

The banking sector is not involved in intermediate- to long-term lending to Indigenous SMEs.

As noted elsewhere, foreign banks (e.g., Standard Chartered) that have been licensed to resume operations in Tanzania are largely handling trade credit for their international clients. The former British banks, taken over by the GoT some time ago, are technically insolvent and are trying to stay afloat by generating *honest business*. Employees of the banks, sensing impending downsizing and layoffs, take as much out of the bank as they can. The alleged widespread high-level corruption in the banks makes it difficult to prevent such "leakage."

Implications

The packaging of debt and equity is essential for the growth of private sector enterprises. Collateral requirements have to be realistically defined, recognizing that very few start-ups in Tanzania or elsewhere in the region will have much net worth. Pooling of credit at the local level and the packaging of both debt and equity funding must be developed in the context of a business plan with well-supported cash flow projections. Starting a small company with 100 percent debt creates too great a burden for the company to survive. This is particularly true in the food and agribusiness field where prices can fluctuate widely based on supply and demand, and in a country like Tanzania with a very high (+/- 40 percent) interest rate on debt.

Until the banking system is improved, donors, if serious about economic restructuring, must replicate USAID's provision of loan funds to new banks. It should be mentioned that First Adili Bank is a new bank, not a survivor of the former regime, and it appears appropriately organized to function in Tanzania as the country is today and as it is expected to be in the future when transition to a market economy is more complete.

Lesson Learned

Selecting viable locations for FADCs or other centers for Indigenous SME development is challenging, as the lack of infrastructure makes communication and support very difficult.

The ability of a firm to access markets *on an affordable basis* must be carefully analyzed. There seem to be opportunities for Indigenous SME development in three (e.g., Dar, Arusha, and Mwanza) or more regions, but proponents need to be realistic about the great difficulties that any enterprise would encounter in distributing nationally, or in accessing export markets other than through the nearest gateway.

Implications

Further processing of raw agricultural products in the Dar es Salaam or Arusha areas was suggested by several interviewees as a logical starting place for an FADC. There is considerable agricultural production in these regions and Dar es Salaam represents a good domestic market as well as a good export gateway. If USAID takes the lead in developing a Dar es Salaam FADC (or appropriate equivalent), it will take a strong multidonor effort for implementation. In Tanzania USAID has moved very cautiously on financial services. However, USAID can take the lead for a project requiring US$4-6 million over a period of four to five years, and is it interested in and willing to do so.

Lesson Learned

To date NGOs have worked mainly with local microenterprises.

In many countries, NGOs are beginning to turn to endeavors that generate employment and income for the rural population. An increasing percentage of NGOs are setting a high priority on Indigenous SME formation as the engine for grassroots economic development. The management and supporters of the more effective NGOs are quite realistic as to what they can accomplish.

Implications

Such NGOs may be in a good position to manage enterprise development centers in rural communities, and supporting them to do this with grants and technical assistance would be relatively straightforward.

USAID should seriously explore, with the help of its AMIS II Project, the opportunity to use NGOs in SME enterprise development activities, particularly in the area of food and agribusiness.

The staff and programs of AfriCare, because of their ties to SAEDF, should be reviewed with some care. References furnished for innovative activity fieldwork by SAEDF board member Rev. Leon Sullivan, who is closely associated with AfriCare, and his staff turned out to be solid potential collaborators.

Lesson Learned

The Government of Tanzania will eventually resolve its problems and be supportive of private sector development.

Currently, the GoT is involved very little, if at all, in private sector development. The Ministry of Agriculture and other ministries can be expected to organize a new thrust after the next round of rationalization and budget cuts. The amount of effort that will be focused on private sector or Indigenous SME development is hard to predict.

Implications

This may be a period when donors smooth the way for Indigenous SMEs by interacting with the GoT at higher levels to obtain necessary licenses, clearances, and so on. Nevertheless, it is important to remember, that for the past thirty years, few Tanzanians could describe what is meant by the "private sector" or a "market economy." Sooner or later the GoT must establish rational policies toward the private sector, particularly if ventures that export, import needed goods, or employ large numbers of Tanzanians are to survive and prosper.

Indigenous SME Development Constraints

1. Holdover attitudes and practices from past regimes.

The "big brother" or "the government will take care of you" effect of the long Nyrere regime is still omnipresent. Politicians do not understand the consequences of the laws they pass and civil servants do not know how to implement regulations and rules for a market economy rather than for a command-and-control collective system. As a result, the informal economy is the only outlet for most entrepreneurial energy because it operates independent of government oversight or tax collections. Similarly, most private sector development is taking place away from GoT control and oversight. There are a great number of cumbersome holdover rules and policies relating to business activity as well as new rules passed by the current legislature, many of which conflict with each other. Fortunately, the donor community has been able to "run interference" to secure needed government permits, licenses, and so on. The private sector can thus move forward subject to other, nongovernmental, limitations.

2. Missing and/or undeveloped supporting services for development of Indigenous SMEs or FADCs are listed below.

    a. **Technical Support and Extension.** The business services available to private entrepreneurs in Tanzania are still quite limited. Technical know-how tends to reside in private firms or in NGOs with a technology transfer bent (e.g., World Vision). The universities, as elsewhere in the region, are under great stress and offer little to support developing enterprises. Hopefully, the recent infusion of foreign capital will bring along companion technology. As for extension, it is reported that personnel in the Extension Service, as well as in the rest of the Ministry of Agriculture, are still demoralized; but it is predicted that they will regroup in the near future and begin to have some impact on the production side in a year or two.

    b. **Management Services.** USAID and other donors have taken steps to meet the *very large* need in Tanzania for enterprise development assistance. As outlined in the project profile on The Business Center (TBC), in the thirteen months since start-up, TBC has begun to concentrate on training business consultants and relating their training to their work with their clients. In fact, they have gone so far as to tie consultant compensation to client performance, starting with the client's ability to secure a loan from First Adili Bank. The idea of leveraging training resources by focusing on consultants has also been adopted by the British in their LAKE project. With these two exceptions, the rest of the population of would-be Indigenous SME entrepreneurs has little exposure to the basics of planning, organizing, financing, or operating an investable business. This lack of knowledge of how business works in a market economy will hinder economic development in Tanzania for a long time, especially when the dysfunctional style of the universities is taken into account.

    c. **Financial Services.** Other than the entities covered in the project profiles, the commercial banks that were taken over by the government are all technically bankrupt. They are trying to eliminate the large number of cases of fraud that occur as employees, facing unemployment from badly needed downsizing, try to convert bank funds into personal nest eggs.

    d. **Marketing and Information Services.** Except for World Bank attempts to track exports and imports, the recent growth of NTAEs is neither measured nor understood by the GoT. There are some expensive consultant services and TBC provides marketing and management training and advice to their consultant and client enterprises. Most NTAE information and intelligence resides in the foreign companies now operating in the country.

6.2.3 Association Development

Association Development in Tanzania is *much* less mature than in Zimbabwe, but more mature than in Mozambique. As was the case in Mozambique, any form of cooperation is viewed with skepticism because of the former governments' influence and control over cooperatives. Association Development in Tanzania has good potential as a means to group small, largely informal enterprises together so that they can achieve economies of scale in sourcing the services they need for their business and in helping the government develop a viable enabling environment in which association members can operate. Because agribusiness association development was a minor focus of the *Innovative Approaches* activity in Southern Africa and researchers were able to identify only two relevant associations, the following section is quite brief.

It is very difficult for SME exporters to gather the technical and market information needed for successful development of NTAEs. Grouping themselves into associations makes this much easier. (TANEXA)

Members of producer-based NTAE associations tend to want to focus on production rather than on processing or marketing. Integrated producer, packer, exporter associations seem to be a viable way to overcome this tendency. (TANEXA)

NTAE association group lending schemes in Tanzania will not require large amounts of capital because members' export volume is usually quite modest. Proper cash management techniques will help reduce the total amount of working capital required. (TANEXA)

Past problems with government-controlled cooperatives makes organizing producer-based associations quite difficult due to potential members' distrust of group-based endeavors. (Sluis)

6.2.4 Financial Services Development

The embryonic state of Tanzania's financial sector was discussed in section 6.2.1 in the context of financial services available to SMEs. The situation for other agribusinesses is much the same; private commercial banks are primarily interested in trade credit for their international (and occasionally short-term debt) clients and the best parastatals, as well as deposit taking. The state-owned banks have serious operation, internal control, and bad debt problems. Loans to agriculture/agribusiness firms are perceived as high risk and involving long-term paybacks. Both perceptions are understandable in Tanzania's underdeveloped legal and business environment and in circumstances of high inflation. However, it is encouraging to find that donors have developed viable institutions to help the private sector overcome the financial sector's difficulties. TDFL, TVCF, and the emerging RMPS and LAKE projects have great potential to supply financing to medium and large agribusinesses (in the cases of TDFL and TVCF) and to provide models for SME financing (in the cases of RMPS and LAKE). It is important to note, however, that both of the existing entities have more funds than investable projects and have felt the need to couple managerial assistance with their financial services. Neither of the new projects will offer a fully integrated approach (i.e., debt and equity financing plus technical and managerial services) to SME development. However, both RMPS and LAKE will be *more* integrated than other donor-supported private sector development projects discovered in SSA.

High Perceived Impact

Lack of entrepreneur experience and equity or collateral, inadequate bookkeeping practices, and the lack of know-how to develop satisfactory financing proposals and the associated business plans are major constraints to financing SME ventures. (TDFL)

Difficulty identifying investable projects, not the lack of finance, is the major constraint to donor-supported financial services projects focused on SME development. The lack of debt financing and entrepreneur equity are both important constraints to the success of *venture capital* projects.

Important factors that limit a venture capital fund's ability to invest its available resources include entrepreneurs' lack of familiarity and comfort with the concept, inadequate recordkeeping practices, the unavailability of exit mechanisms, and restrictions the fund may have on client size, business sector, or owner nationality. (TVCF)

Financial development projects that require a low debt-to-equity ratio will find that there are few investable projects available in private sectors that are in the early stages of development. Convertible debt and income notes, along with loan officers who have a good understanding of the applicant's business, will help reduce this constraint. (TVCF)

Financial services organizations working with *larger* borrowers (e.g., APDF) can afford to do more complete feasibility studies, have less difficulty sourcing funds, and incur lower transaction costs as a percentage of financing value. (LAKE/APDF/BG)

Development finance institutions often find it necessary to establish their own internal consulting group to help potential clients apply for financing and to monitor businesses after financing. (TDFL)

SME managers often assume that loans, especially when donors or the government are involved, do not need to be repaid. (1st Adili)

Medium Perceived Impact

SMEs are not accustomed to the type of recordkeeping required to provide the information needed by the financial institutions from which they seek financing. (1st Adili)

European donors seem to be able to jointly fund successful financial services development projects, possibly because they have similar screening requirements. (TDFL)

Donor-supported development finance institutions *can* become fully localized given enough time and effective training and mentoring. (TDFL)

Financial services are not available for projects in the $50,000 to $250,000 range. (TechnoServe)

Valuation of rural-based assets is a problem, especially when land tenure is insecure and infrastructure is poor. (1st Adili)

Achieving a sufficiently broad geographic reach to identify numerous qualified borrowers is difficult in countries with a poor infrastructure. (1st Adili)

Lower Perceived Impact

When donors supply the private sector with working capital, care must be taken to ensure that large amounts of it are not used to finance imports instead of providing support for domestic and export based industries. (CTI)

Implications

For optimal effectiveness and efficiency as well as for making the most rapid progress, *existing*, well-managed entities (when available) with a good track record should be used for new private sector development programs. New venture capital projects should investigate the experience of other USAID venture capital projects, especially in SSA, before finalizing a design.

The effectiveness of donor activities can be enhanced if donor-supported debt providers (e.g., TDFL) cooperate with donor-supported equity providers (e.g., TVCF), and where available donor-supported TA projects (e.g., TBC), with similar objectives.

Financial services project or entity management teams need to be involved with either a large single fund/institution or several funds/institutions to spread the high cost of their services and keep the cost from being a burden on any one project. Given the cost of high-quality fund managers, a regional fund (debt and equity) would enable better leveraging of management.

High-quality management and support from a donor(s) who has *experience* with business development and finance in developing countries can significantly enhance the chances for success of a venture capital project.

Because the returns on investments in agribusiness ventures are likely to require a longer time than returns for most other businesses, a separate agribusiness fund may be required.

Donors who provide financial services must be careful that the requirements placed on borrowers are highly relevant for the circumstances in that country and do not put an excessive burden on borrowers (e.g., *complex* environmental impact assessments should not be a high priority).

6.2.5 Monitoring and Evaluation

As in Zimbabwe and Mozambique, USAID places much more emphasis on formal M&E systems than do other donors. That portion of their support that is for improving Tanzania's balance of payments is coordinated with other donors and the World Bank and uses progress on conditions precedent as an impact measurement. For their projects and project-related activities it is quite unusual to use macroeconomic measurements to assess the impact. There are two primary reasons for this: (1) other donors tend to disburse their assistance through local government entities whose performance they cannot control, and (2) their activities are most often broken down into individual targeted projects or activities that have their own set of objectives. Progress on these objectives is usually assessed on at least an annual basis, but not necessarily using extensive quantitative measurements. Considerations such as the satisfaction level of the beneficiaries and government entities involved seem to play an important role.

High Perceived Impact

Project M&E must be basic and simple. It must establish the starting point/baseline and produce monthly accounts of progress versus budget for assisted clients. Collecting information on social benefits and secondary impacts is usually not cost effective, but some balance between quantitative and qualitative information can be achieved. (TechnoServe)

M&E for the private sector, including agribusiness development projects, must be focused on commercial measurements, for *both* the development entity and its clients. (APDF)

M&E for TA and business consultancy development projects includes such parameters as the number of managers trained, number of consultants trained and certified, the extent to which training and consulting fees cover actual costs, the success of clients' businesses or associations, increase or decrease in the number of client employees, and the amount of financing sourced for clients. (TBC)

M&E for donor-supported venture capital funds should be based on financial performance of the fund and its investments as well as on the number of new investments assessed. Over the long term, the ability to sell investments at an acceptable price will also be important. (TVCF)

Medium Perceived Impact

Monitoring and evaluating, especially monitoring investments outside the major metropolitan areas (e.g., for many agribusinesses), is quite difficult, primarily due to communications problems. (TVCF)

M&E carried out by the EU donors who support financial services entities appears to be the same as would be used for any other financial institution (i.e., return on investment, increase in assets, loan performance, portfolio balance and risk, nonperforming loans, and balance sheet ratios). (TDFL)

EU donors who support chambers of commerce tend to use subjective considerations when assessing their impact and effectiveness. Important criteria include the chamber's influence on the development of government policies and procedures conducive to private sector development and the increase in the number of members and the portion who are active. (CTI)

Lower Perceived Impact

M&E for GTZ projects tends to be subjective and informal since their success is quite dependent on the support and cooperation of the government entities through whom they work. (GTZ)

M&E for T-PRESS will be based on the number of machines and improved planting seed sold, amount of oil produced by the press owners, the sustainability of press micros, and the sales division's *progress toward sustainability*. (T-PRESS)

6.2.6 General Recommendations

The following recommendations are believed to be relevant to the overall *Innovative Approaches* activity in Tanzania, but do not fit under the above categories.

High Perceived Impact

A formal and ongoing SSA-wide information exchange should be established on agribusiness development lessons learned and the implications for USAID project/activity design and development. (TBG)

Improvements in government industrial policies must be accompanied with significant input from the private sector, especially when evolving from a parastatal-based economy. (SIDA)

Africans from other countries may be able to supplement the supply of local agribusiness managers while locals are trained and gain more experience. (StanChart)

Medium Perceived Impact

Donors need to make very sure that managers they assign to projects have *pragmatic* ideas and *direct experience* in the disciplines in which they will be working. (TechnoServe)

Multidonor funding may enable more appropriate staffing levels for complex and multi-service projects, which otherwise would have to become more highly focused and limited in scope. When donor funds are reduced, programs are forced to prioritize and focus their efforts on fewer areas. (BG/GTZ)

Official policy and enabling environment enhancements are often not fully implemented. (1st Adili)

To minimize the passage of conflicting rules and regulations, policy enhancement projects may be needed to help the various government ministries *coordinate* the development of policies that affect private sector business. Significant involvement of the private sector in policy development will help minimize these inconsistencies. (CTI)

Investors in privatization projects should be cautious about the durability and enforceability of the agreements associated with these acquisitions. The involvement of an investor's home base government or a major multinational donor such as IFC may help preserve such agreements. (StanChart)

Low morale/motivation and second jobs can be significant constraints to the success of donor projects that use local government counterparts, especially where government wages are inadequate. PVOs/NGOs may be a viable alternative when government entities are lacking in counterpart funds and government employees are poorly motivated. (GTZ)

Lower Perceived Impact

Improper and/or inadequate equipment maintenance (especially for donor-supplied used equipment) often results in very high operating and rehabilitation costs for parastatal and private sector agribusiness companies. (LAKE)

Specific to Tanzania

There appears to be a significant opportunity to coordinate and integrate several different existing donor-supported SME development activities: specifically TDFL (debt), TVCF (equity), and The Business Center (TA and managerial assistance). StanChart may be willing to provide a working capital line of credit to clients of all three of the above entities. (TVCF)

The success of ProTrade, HSF, and KFW merits further evaluation. (GTZ)

There are opportunities in Tanzanian agribusiness for good, experienced managers who have capital. (Sluis)

Input supply problems and the unpredictability of weather are two of the major constraints to output predictability and therefore successful agribusiness ventures in the Arusha/Moshi area. (Sluis)

If the GoT is sincerely interested in the success of TISCO, TISCO could represent a good partner for a donor-supported project to supply expertise for privatization efforts. (TISCO)

6.2.7 Key Issues Deserving Further Study

The following issues are sufficiently important to agribusiness development in Tanzania that an effort should be made to try to resolve them.

High Perceived Impact

What is the best way to determine the viability of and to develop agribusiness and especially NTAE projects in the Arusha/Moshi area that have the potential for a broad-based, positive impact? (Sluis/Sun Flag/NEVEPA)

What is the best way to assess the success, future prospects, and specific agreements of outgrower schemes in the Arusha/Moshi area? (NEVEPA)

Can Mwanza organizations that provide business services be developed quickly enough to support SMEs in which LAZER will invest? How will the TA and managerial assistance be provided to entrepreneurs interested in businesses (e.g., NTAE, where there is a very minimal knowledge base in Mwanza)? Could TBC-certified consultants experienced in NTAE be "shared" with LAKE? (LAKE)

Medium Perceived Impact

When local business skills are very limited and project funding does not enable adequate staffing, how can indirect (consultant) or direct management skills be developed on a timeframe consistent with need? Is assisting existing training institutions, such as universities, to develop effective business management training programs a viable approach? (TBC)

Apparently an underlying assumption of the LAKE project is that LAZER equity, and the preparation work necessary to qualify for LAZER support, will help entrepreneurs establish the collateral base and credibility needed to apply for debt from commercial sources. Is this a valid assumption? Did ODA consider asking TDFL to join them in the LAKE project so their favorable rate *debt* could be combined with LAZER equity? (LAKE)

Lower Perceived Impact

How can immigration departments be best convinced that expatriate advisors generate much more local capacity and employment than they replace? (SAT)

Tanzanian companies must deposit with the lending bank 100 percent of the value of any foreign exchange they need in shillings, plus pay interest on the foreign currency they borrow, until it is repaid. This is a major constraint to exports that require imported inputs. How will LAKE or other donor projects help overcome this serious constraint? (LAKE)

6.3 USAID TANZANIA AGRIBUSINESS DEVELOPMENT RECOMMENDATIONS

Based on the very brief (one week in country) work of the AMIS II team in Tanzania, the following is offered as very preliminary input to Mission agribusiness development program enhancement.

It is impressive, and very fortunate given the very poor state of the banking system and level of private sector development in Tanzania, that the range of services needed for agribusiness development has been made available by donors. The Business Center (sponsored by USAID) offers managerial and some technical assistance, TDFL (EU donors) offers reasonable rate debt, and TVCF (EU donor capital + USAID operating funds) offers equity. The services of the TVCF and TDFL, however, are focused primarily on medium and large firms. USAID's new RMPS project will provide participatory forms of financing to SMEs. The new LAKE (CDC-sponsored) project in Mwanza will offer equity to SMEs and will attempt to upgrade local consulting capacity.

None of these projects offer the *full range* of business services that a developing SME needs, nor are the services effectively integrated so that a client can do one-stop-shopping. It is also very difficult for services to be provided in such a way that the greatest need gets the most attention (i.e., constraints to the firm's success addressed on a priority-for-that-firm basis). Also, none of these services is focused on agribusiness, even though agriculture represents a major portion of Tanzania's GDP and employment and there appears to be considerable potential for expanding agribusiness, including the export of agricultural products.

Also, there is a serious need to develop the business management and marketing capabilities of business services providers, especially consultants, and entrepreneurs and managers.

USAID Tanzania is developing innovative Indigneous SME development programs and there is a need and opportunity to develop others, especially related to NTAE development. It is not clear, however, that the lessons learned elsewhere by USAID and other donors, and the implications to optimizing USAID Tanzania-related programs, are being utilized.

Therefore, the following suggestions are offered:

1. Investigate the feasibility of developing and implementing a coordinating mechanism that will enable entrepreneurs to access the resources of existing business development services in a one-stop-shop manner. An alternative would be to use one of the existing entities as the basis of a one-stop-shop, which draws upon other existing projects when possible, but offers the missing

services itself, or identifies other outside sources, if the other project is not willing to cooperate. For example, The Business Center would itself offer technical and managerial consulting assistance to *Indigneous SME agribusiness* clients, or would refer clients to certified outside consultants for such assistance. If the client needs and can support debt, the client would be able to use either TDFL or RMPS (depending on the client's size), but the funds would be disbursed through and controlled by The Business Center. If the client needs equity, they would be able to use either TVCF equity or RMPS equity instruments, again dispersed through and controlled by The Business Center. The credit/investment risk would stay with the source of the funding and a combined review board would determine a single set of support/financing policies and review and approve support/financing applications as a committee. Special emphasis would be placed on post-financing assistance and managerial development.

Once a model has been developed for a Food and Agribusiness Development Center, the concept can be applied to other high-potential geographic areas such as Arusha/Moshi and Mwanza. A *new* entity/FADC, supported by the abovementioned projects, is the best approach, and could be developed in an area (e.g., Arusha/Moshi) that has considerable potential for *broad-based* development of NTAEs. Also, the LAKE project in Mwanza needs better access to fully functional business services as well as to debt to complement the CDC-supplied equity, especially for agribusiness-related projects.

2. Because of the major need to upgrade agribusiness (and other) management skills, a program of mentoring successful business managers with fledgling entrepreneurs should be investigated. It is recognized that there will be difficulty attempting to link indigenous entrepreneurs with non-indigenous managers (who represent a large portion of the successful manager pool). However, the need and potential benefits justify investigating the possibilities. A close assessment of the successful K-MAP program in neighboring Kenya would be very useful in this regard.

3. Once a set of agribusiness development objectives has been established, it would be very useful to assess donor-supported programs with similar objectives elsewhere in the world, but especially in SSA, and extract from these programs the lessons learned and implications for optimizing the design and implementation of similar projects in Tanzania. The *Innovative Approaches* activity, which this report is part of, focused on agribusiness development programs in Kenya, Uganda, Ghana, Mali, Senegal, Mozambique, and Zimbabwe, and has completed secondary research on FADCs in the development world and LAC agribusiness development projects. The AMIS II team would be pleased to work with USAID Tanzania on this type of assessment.

Appendix A

Detailed Profiles - Zimbabwe

This appendix includes the basic findings on agricultural and agribusiness-related donor-supported projects in Zimbabwe. The assessments of the projects, associations/unions, and other organizations that follow include summarized Objectives, Discussion, and Impact sections, and the Conclusions reached from that case study.

A-1 FINDINGS ON SUPPORTED PROJECTS

A-1.1 Agricultural and Rural Development Authority (ARDA) (formerly Agricultural Development Authority [ADA])

Sponsor: Zimbabwe government, plus EU for some specific projects

Project Value: N/A

Start Date: 1982 for EU funding approval; did not receive funds until 1985; implementation began 1987/88

Completion Date: Ongoing

Principal Objectives:

Association Development: No direct interest except as supports other objectives.

Financial Services: Coordinates with Agricultural Finance Corporation (AFC) for client funding.

SME Development: Establish indigenous subsistence and cash farmers on resettlement and government-acquired land. Provide infrastructure, especially irrigation, for commercial farming projects. Enhance indigenous commercial farming.

Discussion: ARDA is a parastatal, part of which (commercial farming) is going to be privatized, although the rural development components will continue to be state-owned. ARDA manages large-scale irrigation and commercial agricultural production projects, most of which are related to state-acquired farms. When a large piece of commercial land becomes available, the government buys the land and ARDA assesses its agricultural potential. The land is then put into either a subsistence or commercial development track. ARDA-organized resettlement/subsistence schemes average 2–5 hectares per farm and total *3.5 million* hectares.

A new plan is to develop farms (average 20–50 hectares) for expert farmers who will focus on cash crops such as cotton and tobacco. The beneficiaries will lease the land for five years (to preserve their capital) and will have an option to buy the land after the five years. They will use equipment from the previously state-owned farms and will be able to buy inputs via AFC-administered loans. Price Waterhouse is developing models for crops, rotations, and financing requirements.

Findings from ARDA projects include the following:

1. Associations can be effective in organizing small producers and helping them provide basic services for themselves. For example, the Mashonaland East project (EU funding for transport equipment [see section 4.2.5]) includes five associations with 16,000 members. This project included a focus on tomato production and marketing, mostly for the domestic market. ARDA field teams organize the transport equipment and local associations do the grading. Financing for development costs is based on a grant for year one, 50 percent grant/50 percent loan for year two, and commercial rate financing for year three and beyond.
2. Some ARDA projects are investigating flower (protean) and strawberry production. ZimTrade is used for export market information.
3. In 1991, Hortico, a local exporter of fresh vegetables and fruit, worked with farmers in the Mutoko communal area in association with ARDA.

Trials on sweet corn worked fairly well, as Hortico supplied all the inputs as well as extension services. However, the company found that it had to restrict purchases to less perishable products due to the lack of infrastructure, specifically cold stores and transport. ARDA acted as middleman for exporter purchases from farmers grown on a 9-hectare area. FAO was also involved.

4. The Heinz joint venture buys pea beans from an ARDA estate, where about 1,000 small farmers grow beans under dry land agriculture conditions.

5. The Katiyo Tea Estate, located in the Honde Valley, is under the control of ARDA. Tea is the main product but coffee and bananas are grown also. Just under half the tea (about 700 ha) is grown by the estate; the balance (about 800 ha) is produced by some 400 smallholders (who have 1–4 hectares of tea each) who have been resettled on part of the estate. Green leaf is purchased from the smallholders by ARDA and then processed in the estate factory prior to sale. This project was launched with loans to farmers to help them purchase the tea bushes and maintain them until they came into production. This is an example of how outgrower schemes can function in Zimbabwe.

The estate is well operated. Responsibility for marketing, which management views as their major challenge, was recently taken over by the estate from the ARDA head office in Harare. Good progress seems to have been made in this area as the estate is now adding value to its tea by producing tea bags instead of simply exporting bulk tea for further processing overseas. Good markets for this product have been developed in Sweden and Germany under the estate's own brand name.

In the area around the estate there are a large number of independent smallholders producing basic foodstuffs. Much of this land is probably suitable for tea and the incomes of these farmers could be increased if they became outgrowers to the estate. However, for this to happen several constraints would have to be overcome: (a) potential outgrowers would have to be convinced that tea is a viable crop; (b) they would require credit to purchase the tea bushes and tend them until they came into production, because they would not be able to start repaying the loans until they gan to sell green leaf to the factory; (c) while tea is a traditional crop in the area, some farmers will probably need technical assistance and training; the estate already assists its existing outgrowers in this way so it may be able to expand this service to include new outgrowershe development of new outgrowers, the estate's processing capacity would have to be increased and the existing factory expanded, which would require a considerable capital input (i.e., external funding).

Impact: The Mashonaland and tea projects seem to be successful, but how sustainable ARDA's commercial farming business will be after privatization remains to be seen. The Mutoko project with Hortico has yet to produce and market large volumes of horticulture produce.

Conclusions: Well-managed parastatal development entities can effectively meet social objectives.

The input/output or cost-effectiveness of ARDA projects is difficult to assess.

Separating ARDA's developmental activities from its commercial activities will make it easier to monitor and evaluate their respective performance, and donors will be better able to work with the development entity.

Local producer associations can be effective in Zimbabwe, as exemplified by Mashonaland East.

Where infrastructure is inadequate, less perishable products must be produced.

Responsibility for marketing should be with an entity closely associated with production, (e.g., the tea estate) rather than with ARDA.

A-1.2 CARE

Sponsor: Private

Project Value: N/A

Start Date: N/A

Completion Date: Ongoing

Principal Objectives: Use rural community empowerment as a means of replacing many government services.

Association Development: Community-owned and -managed water distribution entities.

Financial Services: Some interest in group lending to support other activities.

SME Development: Primary interests are in establishing water supply (for use in irrigated vegetable production) entities based on dam rehabilitation (desilting). Also interested in increasing the amount of credit available to the informal sector via group lending.

Discussion: Much of CARE's focus is on communal lands that at one time were supplied water by the government, but the water system was not properly maintained. Nearly 60 of these projects are being assisted by CARE, rehabilitating dams and establishing a community-based water distribution company to sell the water. Part of the proceeds are used for dam maintenance. ATI foot pumps (see section 4.2.10) could also be used to supply water to family vegetable gardens, which would help alleviate food availability problems. The key is for the community to accept responsibility for the dams and water system, rather than to rely on the government.

Currently only about 1 percent of agricultural credit goes to the informal sector, and most communal-based enterprises operate in the informal sector. CARE is developing group lending programs that will offer credit at a small discount to commercial rates.

Due to the lack of local market outlets for production and stores to purchase supplies, local villagers are forced to do their trading in regional markets. This means extra time and expense to the villagers and the loss of the trading margin to the village. CARE is looking at opportunities to establish local trading posts that would help balance supply and demand, offer small amounts of credit, and function as stimulators of change. Specifically, the trading post operator would specify the inputs (seeds, fertilizer, crop protection chemicals) that should be used by producers for him to give the producer the best price and total purchase value for his output. CARE would help the trading post operators establish their businesses, offer small amounts of credit to clients for inputs purchase, and provide market information that would enable fair pricing and help producers find the best market.

CARE believes that (1) maize yields could be significantly improved by the technology transfer that would take place between a village-level trader, who provides inputs and buys the output, and the producers; (2) agricultural yields can be improved significantly by (a) planting early and doing proper weeding, (b) proper use of fertilizer and pesticides, and (c) use of better crop varieties; the best varietals are those that have high drought tolerance *and* good upside potential if the weather is "normal," this will likely mean a mix of seeds with high and low drought tolerance; (3) Agritex (the agricultural extension service) is facing severe budget problems and is getting behind on their technical knowledge; (4) GoZ decentralization activities have improved the appropriateness of local activities and projects, but have significantly slowed the approval process. Who can approve projects and the basis for their approval are not well understood by CARE or local residents.

Impact: Significant progress has been made on the dam desilting/water distribution projects.

Conclusions: Privately funded PVOs can be very effective and innovative *if* they are well managed. CARE's "village trader" project is very innovative, has considerable potential, and should be monitored by USAID.

A-1.3 Danish International Development Agency (DANIDA)

Sponsor: Danish government

Project Value: N/A

Start Date: N/A

Completion Date: Ongoing

Principal Objectives: Primarily interested in horticultural production technology transfer.

NTAE Development: Only as related to production.

Discussion: The Danish Government Institute of Seed Pathology for Developing Countries trains people in seed pathology, presenting both practical and formal courses, which can lead to a Ph.D. in Denmark.

DANIDA is constructing the National Quarantine station in the Mazoe area, now almost complete. It also supports irrigation schemes with produce packing sheds, irrigation infrastructure, and horticulture seeds. An example is the irrigation scheme known as Nyandoro in the Chihota District of Mashonaland East Province.

Impact: While considerable horticulture production technology transfer has taken place, the returns on this investment have been constrained by a lack of parallel financial, managerial, and marketing assistance.

Conclusions: Further assessment is needed. The lack of financing and marketing assistance restricts overall project success.

A-1.4 German Technical Assistance (GTZ)

Sponsor: German Government

Project Value: N/A

Start Date: N/A

Completion Date: Ongoing

Principal Objectives:

Association Development: Develop self-help production groups.

SME Development: Minimal.

Discussion: Assistance is provided by GTZ jointly with ARDA's Coordinated Agricultural Rural Development (CARD) Project in Masvingo Province. The objective of this program is to establish economically viable production systems based on self-help efforts in the communal areas of three districts of Masvingo Province — Gutu, Zaka, and Bikita. Long-term and short-term experts are engaged to introduce improved crop cultivation practices. CARD and GTZ are involved in the production of foundation and certified seed, plant protection, postharvest handling, and storage technology. GTZ and CARD have developed a well-respected monitoring and evaluation system, which is really a logical framework used to follow the business plans developed by participating farmers. Other activities include introduction of improved livestock management, water supply and sanitation, and land use planning.

The Fuva project is supported by ARDA and GTZ and promotes horticulture production in the Fuva communal area of Zaka with water from the Siya Dam. Four areas take water from a canal running from north to south and distribute it through a system of secondary canals. Each area has from 15 to 20 households organized into informal groups. Vegetables are grown mainly in the dry season (June–December) when other areas cannot produce them, while the rest of the year the main crops are maize, rape (local term for a green, leafy vegetable), groundnuts, cabbage, and tomatoes. An Agritex extension worker is assigned to the project full time. GTZ's role in the project was to finance the construction of canals and to provide credit for purchase of inputs; GTZ is not involved in marketing.

ARDA's Integrated Rural Development Program Coordinator reports that farmers have difficulty marketing their surplus production and have asked the agency for help. However, ARDA has no marketing specialists on their staff. The groups need technical assistance in postharvest handling and marketing, financial support for purchase of transport and cold storage, and access to market information.

Impact: CARD has had modest success; Fuva project horticultural sales have been suboptimal.

Conclusions: Integrated assistance is needed for the Fuva project. The GTZ/CARD M&E system needs further review for adaptable ideas.

A-1.5 Mashonaland East and Manicaland Projects

Sponsor: European Union (EU)

Project Value: Mashonaland: Grant - ECU 625,000 (US$500,000); Loan - ECU 2,275,000 (US$1.8 million); Manicaland: N/A

Start Date: Mashonaland: October 1986;
Manicaland: N/A

Completion Date: Mashonaland: 1997;
Manicaland: N/A

Principal Objectives: In Mashonaland, primary objectives are to encourage farmers to increase the quality and quantity of their horticultural products output by (a) providing a small extension service, (b) training Agritex staff, (c) providing seedlings of improved varieties of mangoes, and (d) helping farmers convert to the improved (less fibrous) mango varieties. Marketing objectives are to help smallholders sell their produce at higher prices and reduce their marketing costs by (a) providing three trucks to transport produce to the major urban market and (b) establishing an assembly market with grading machinery within the region. Institutional development efforts are to establish self-sustaining organizations to carry on the activities after EU support ends.

The objectives in Manicaland are similar to those in Mashonaland but focus on a different geographic area and on fruits and nuts rather than on vegetables and fruits.

Association Development: Develop independent, self-financing and self-managing associations that will take over all ongoing project activities.

Financial Services: Some for rural producers.

NTAE Development: Some interest in mango exports.

SME Development: Develop sustainable produce transport and assembly market firms.

Discussion: The European Union operates two horticulture/NTAE projects, both managed by ARDA: the Mashonaland East Fruit and Vegetable Project (Mash East Project) and the Manicaland Fruit and Nut Project. The Mash East project is in its second phase and will end by 1997. It is hoped that the project will then be self-sustaining. Technical backup has been provided in the form of assistance in horticulture, marketing, finance, and institutional development for rural farmers. The project also assists with transport by providing trucks for moving produce from rural farmers to markets in urban centers, vehicles for staff and motorcycles for extension workers, and workshops for vehicle maintenance.

For the Manicaland Fruit and Nut Project, located in the Honde and in the Rusitu Valleys, the EU provided assistance similar to that for the Mash East project: transport, assembly halls, and offices. This project, however, was terminated in its first phase because of staffing problems before the completion of facilities construction.

During Mash East project planning, several areas of communal farms were identified as having potential for horticulture; they were within a reasonable distance of Harare, had access to irrigation from shallow wells, and were located in areas of fertile soils. Farmers in the area had not been involved in horticulture because they lacked the practical skills needed, had no knowledge about marketing horticulture products, and had no transport available to move crops to markets.

The EU designed a project to overcome these constraints and get local farmers into production and marketing of high-value horticultural crops. Features of the project included the following. (1) Several horticultural producers associations (HPAs) were organized to represent farmers in the area. These associations were then used to promote the project and develop the marketing skills of members, (2) A fleet of trucks was donated, with the understanding that the project would be responsible for maintenance and operating costs; farmers were charged for each crate carried on the trucks, which covers vehicle operating costs and contributes to overall project costs, (3) extension services were initially provided to farmers until Agritex extension agents could be trained to take over these functions, (4) collection centers (simple sheds) were built in each village where farmers leave their produce while awaiting collection by project trucks; (5) Two assembly markets (substantial buildings with cold storage) were built, Produce is trucked to these assembly points from the collection centers, then transported on larger trucks to the Harare market, (6) Training activities included leadership and financial training for elected officers of the HPAs, and practical training (e.g., crop spraying) for farmers such as crop spraying, (7) Inputs, mainly fertilizer, were supplied to farmers on a cash sale basis, though the cost savings from bulk buying were passed on to buyers.

In the second phase of the project, grading and packing facilities were added to the assembly markets and salesmen were employed by the project to sell produce on behalf of the farmers in the Harare Farmers' Market.

Impact: The Mash East project is considered a success. Problems encountered include lower than expected prices for graded produce (no premium price for quality) and lack of loyalty by some farmers, who prefer to sell their own goods rather than rely on the project salesmen. An interesting spin-off of the project is that Selby Enterprises, a leading vegetable exporter, has contracted with the HPA to deliver fresh vegetables to its packhouse for export, using the project cold store as a collection point. Future plans include a loan guarantee scheme for group borrowing from AFC to enable purchase of better irrigation equipment, a sun-dried fruit and vegetable production and sales scheme, propagation of fruit trees for distribution to farmers, and development of an HPA-owned vegetable packing and export scheme.

Two HPAs were established. They are farmer managed and have elected management committees and a larger assembly of producer representatives. The HPAs have taken over much of the day-to-day management, and finance much of their own operating costs and considerable investments out of the revenue derived from the trucks, which were paid for by the project.

Farmer production and income have risen by *at least 30 percent* from vegetables and at least *10 percent from fruits*. Farmers are using a much wider range of inputs. Total vegetable production increased 30 percent.

The shift of emphasis from production to marketing had a very positive affect on project results.

The Internal Rate of Return (IRR) for the project is estimated to be 14.5 percent.

The transition to fully independent and self-financing HPAs has yet to take place. The main barriers to this are lack of self-supporting accounting systems (accounting costs) and the inability to finance maintenance and replacement costs.

Conclusions: To minimize administration costs, HPAs may need to act as principals rather than as agents, as is the current practice. This may be of particular interest to members as well.

Effective staffing is absolutely essential to a project's success.

Leadership and financial training are important for association management.

Membership loyalty is a requirement for association sustainability.

Not all buyers are willing to pay a premium for better quality produce.

Well-organized and well-managed multilayer associations can improve project leveraging.

All aspects of a project's and the beneficiaries' success (production, organization, management, marketing, finance, etc.) must be properly served for optimal results.

Some form of product consolidation is necessary for the financial success of marketing projects involving small-scale producers.

A-1.6 World Bank Programs (WB)

Sponsor: The World Bank

Project Value: N/A

Start Date: N/A

Completion Date: Ongoing

Principal Objectives:

Association Development: Minimal.

Financial Services: Through commercial banks.

NTAE Development: Support for Horticulture Research Station administered field trials in communal areas.

SME Development: Offers export credits through local banks.

Discussion: Existing World Bank projects in agriculture include the Agriculture Credit and Export Promotion Project (ACEPP), which provides a line of credit for lending through the AFC, and support to the Marondera Horticultural Research Station (HRS) by supplying a long-term technical expert, short-term courses for research staff, horticultural field trials, and construction of a postharvest laboratory. Also included is a grant element for training visits by scientists and researchers from South Africa and elsewhere, study visits abroad, and participation at conferences and at short courses for the staff of the Horticulture Research Center (HRC).

The World Bank has recently approved the use of grant funds for field trials/demonstration plots for NTAEs such as fruits, vegetables, and spices in communal areas. The World Bank is encouraging the HRS to link such trials to private outgrower schemes, and on a limited basis is making available consultants to advise private firms in the design and administration of outgrower schemes.

It is also plans to send a consultant team to work with local consultants to develop a long-term horticulture research and training strategy and to assess the likely costs and benefits of a horticultural market intelligence service. One possibility that will be investigated is the creation of a Horticulture development Trust, with some combination of private and public management and finance, which would fund some of these activities. The trust would draw on successful experience in Zimbabwe with the Tobacco Development Trust, in which cooperation between commercial farmers, communal farmers, and the government has been nurtured.

General observations by World Bank management include the following:

- Rainfed agriculture fails every three to four years. There are many apparent opportunities to improve/conserve water use beyond those necessitated by the current drought. Irrigation systems on communal land are much less developed than on commercial farms. Soil quality maintenance is also an important issue.
- Undercapitalization is the major constraint to most Indigneous SMEs.
- Most agricultural labor is supplied by women.

Zimbabwe's black population distribution is 3 million urban, 3 million living on commercial farms, and 6 million living on communal farms. The 3 million living on commercial farms represent a significant source of labor *and political support* for the commercial farmer.

Most World Bank support for the private sector is channeled through the commercial banks, which have experienced poor repayment on agricultural loans.

Although, the majority of the 3,000–4,000 large commercial farmers are white, those that are black represent an excellent source of linkages with smaller commercial farmers and communal farmers.

The World Bank is establishing an Enterprise Development Fund that will focus on SMEs and exports. It will include equity and credit and will be administered through commercial banks.

Impact: Details on the impact of World Bank programs were not available. There have been repayment problems with loans to production agriculture.

Conclusions: NTAE outgrower schemes have potential in Zimbabwe, but the optimal arrangements have yet to be identified.

The Tobacco Development Trust is a good model for achieving cooperation between commercial farmers, communal farmers, and the government.

Group lending can help overcome communal land ownership–based collateral problems.

There are opportunities to improve water management beyond those associated with the current drought.

Undercapitalization is the major constraint to most Indigneous SMEs.

The World Bank's Enterprise Development Fund should be monitored for successful approaches to SME export financing and to determine if a finance-only project can succeed.

A-1.7 Zimbabwe Enterprise Development Project (ZED)

Sponsor: USAID

Project Value: N/A

Start Date: N/A

Completion Date: N/A

Principal Objectives:

Association Development: One of the main project components

Financial Services: Provides grants and loans to Indigneous SMEs.

NTAE Development: NTAE firms could be beneficiaries

SME Development: Target clients for guaranteed loans.

Discussion: ZED has three main components: employee ownership, business/trade association support, and access to capital. Program grants under ZED support various NTAE activities. Loans available through Barclay's Bank are guaranteed by the ZED project and could be used by NTAE packers to buy equipment. ZED loan guarantees can facilitate the establishment of small service enterprises linked to the NTAE industry.

Impact: Time did not allow direct assessment.

Conclusions: This project needs further assessment to determine impact and lessons learned for USAID.

A-1.8 Zimbabwe Manpower Development II Project (ZIMMAN) (implemented by the Academy for Educational Development [AED])

Sponsor: USAID

Project Value: N/A

Start Date: N/A

Completion Date: N/A

Principal Objectives: Enhance the business management skills of Zimbabwean entrepreneurs.

Association Development: No direct interest except as supports other objectives. Some work in association management training.

Financial Services: No direct interest except as related to management training.

NTAE Development: No particular focus on agriculture, agribusiness, or exports. Develop needed management skills of NTAE entrepreneurs.

SME Development: Develop and enhance the skills of indigenous, private sector SME entrepreneurs and managers.

Discussion: Training in business planning and management is a precondition for the emergence of new NTAE enterprises, especially for the small indigenous-owned NTAE companies now appearing. Many of these businesses have been started without sufficient owner training in marketing and business management, and may fail unless they are assisted.

ZIMMAN's focus is on established Indigneous SMEs (i.e., entities with five or more employees).

Management conducted a detailed potential client "needs" survey early in the project to identify the highest yield training opportunities. This was used as the basis for designing training programs.

Findings to date from this project, include:

- In very general terms, the most important constraints, according to Indigneous SMEs, are "solving current problems," "producing profitably," and "managing all of the loose ends."
- Most entrepreneurs have a good understanding of production but do not understand management basics. No particular component of management is weakest; they all need significant upgrading.
- AED's production module is basic production management; the relevant association provides specialized training in production technology for their commodity. The Tobacco Institute's training program is a good model for technical training. However, the more subsector-specific the basic production management training can be, the better it will be accepted by participants.
- Cost control is a major issue for Indigneous SME entrepreneurs; they are quite weak at producing at a competitive cost. Marketing *costs* are less of an issue.
- Indigneous SME entrepreneurs have minimal assets/collateral.
- Republic of South Africa (RSA) associations are good models for association development in Zimbabwe. They assess a levy on companies for each employee, using the proceeds to fund training programs.
- There are several associations available to help develop and support their members, but the organizational and management skills of their management needs. The American Society of Association Executives will do some of this training.

- Indigneous SME businesses are often owned by someone other than the on-site manager. For example, a farmer may forward integrate with his output or a bottle shop owner may use some of his earnings to diversify. It is not unusual for reasonably successful entrepreneurs to have several small, unrelated undercapitalized businesses. However, these businesses "top out" relatively quickly due to a lack of management skills on the part of the owner and his managers, a lack of owner interest in reinvestment, or the bother to the owner of more or larger businesses. The lack of management skills is a large part of the reason for the difficulties associated with controlling and/or expanding several different businesses.

Impact: ZIMMAN's impact appears very positive at this time, but the real benefits of management training may not be realized for some time.

Conclusions: The most important constraints to Indigneous SME success in Zimbabwe are the lack of access to capital and the lack of managerial skills necessary to manage a business (or several small businesses) in a way that enables repayment of loans.

As the state-controlled marketing boards decline in importance and their functions are taken over by the private sector, major amounts of training are required to enable reasonably well-qualified new managers to function effectively and efficiently. Prequalifications for potential management trainees is important to optimize the return on scarce resources.

A focus on training to help entrepreneurs develop business plans for financial institutions is *not very useful* due to the limited availability and the high cost of financing. Training to develop business plans for their own use (i.e., as a basis for managing their business) is high-yield training.

There seems to be excessive emphasis placed on the export market when the domestic market is underserved and less difficult to supply.

A-1.9 Zimbabwe Export Promotion Program (ZimTrade)

Sponsor: European Union (EU)

Project Value: $1.9 million/year, with ECU 10 million ($8 million) from EU.

Start Date: Mid-1993

Completion Date: Mid-1998

Principal Objectives: Stimulate Zimbabwe exports.

NTAE Development: While not focused on NTAE, will assist qualified NTAE exporters; and has a special unit for horticulture and floriculture products.

SME Development: Only as related to export development.

Discussion: ZimTrade is devoted to the promotion of all types of exports from Zimbabwe. In the area of NTAEs it provides service in such areas as (a) exhibiting Zimbabwean goods at major international trade fairs, (b) arranging inward and outward trade missions, (c) preparing generic promotional material, (d) public relations aimed at, for example, the international trade press, (e) providing introductions to Zimbabwean exporters for overseas importers, and (f) providing information about overseas markets, for example, regular newsletters are produced for flower growers about trends in EU markets.

ZimTrade works mainly at the "trade" level in target foreign markets; it does not have enough funds to undertake promotions at the consumer level. In addition to European and other distant markets, ZimTrade is very active in Southern Africa regional markets.

ZimTrade by design is 50 percent funded by a 0.1 percent assessment on all imports and exports and 50 percent from the Zimbabwe government. However, the government has contributed less than 5 percent of the funding, but holds four of the nine seats on the board of directors.

The project has seven full-time expatriate consultants (six for the first four years and one for the last year) and three short-term consultants (for a total of ten man-years). Total staff is 50, with 17 professionals.

ZimTrade's Trade Information Center has extensive and multiple sources of international trade information and conducts market surveys for perceived high-potential export markets. It will be a Trade Point on the Internet and traders will be able to do on-line trading from ZimTrade's offices or from their own.

ZimTrade selects clients solely on the basis of their potential to develop significant exports.

ZimTrade a special unit to develop SME exports. Potential beneficiaries are screened, selected, and appraised to determine their opportunities and constraints. They are then helped to assess their best opportunities and taken to regional trade fairs. Technical and general managerial assistance is provided with the objective of maximizing exports, not firm success or profits. This program accepts about fifteen new clients per year. ZimTrade shares costs with the client but does not provide financing. This lack of financing is often a significant constraint to the clients' ability to export and to their ultimate success.

Impact: The World Bank and other donors view ZimTrade as a good model for export promotion and for developing the potential of the Zimbabwe private sector, which is strong. Since only 13 percent of commerce is government owned, government entities should not be an important obstruction.

Conclusions: A small surcharge on imports and exports is a good way to fund an export development entity, especially because government funding is unreliable.

A large up-front investment and significant ongoing operating costs are needed for a broad-based export promotion and information service.

Project quantitative success will be enhanced if it focuses on commercial considerations.

SME export support requires considerable and ongoing "hands-on" assistance.

A-1.10 Zimbabwe Oilseed Processing Project (ZOPP)

Sponsor: USAID (managed by Appropriate Technology

Project Value: $200,000/year International [ATI])

Start Date: 1989

Completion Date: Ongoing

Principal Objectives: Rural community development.

Financial Services: Some financial assistance to oil press purchasers supplied by CIDA.

SME Development: Help establish small vegetable oil businesses based on ATI manual press. Make better use of locally available oilseeds, reduce the cost of food grade vegetable oil, and increase the income of press owners.

Discussion: ZOPP established six manufacturers of presses in Zimbabwe: four are still in business, two sell through ZOPP and two sell directly to end users.

ZOPP sells presses (mostly for sunflower seeds) to individuals and to groups of five to six persons. Seventy-five percent of the purchasers intend to establish a commercial business and 25 percent will use the press for their own use plus some commercial sales. About 30 percent of those who purchase a press are not able to sustain a viable business, but they may continue to use the press for their own needs and sell vegetable oil from time to time.

ZOPP has sold 700 units since its inception and 180 units have been sold directly by the manufacturers. Cash purchases account for 60–65 percent of sales. For purchasers who do not have sufficient cash, the Canadian International Development Agency (CIDA) offers a revolving fund that requires a 30 percent deposit, then offers a three-month grace period, three months at a low/subsidized interest rate, and then 30 percent (local commercial rate) interest. This program has suffered a 40 percent bad debt rate.

One unit *operating at capacity* can produce 3,900 liters of vegetable oil and 10,500 kilograms of press cake per year. This should generate $6–11 per day in potential sales or $1,000–$3,300 per year in gross income. A machine costs between $200 and $250 depending on capacity.

ZOPP recently started distributing sunflower seeds for planting, but it does not assist clients to sell their output. They have established four producers of hybrid seed, but there has been difficulty controlling which hybrids produce which planting seed. ZOPP is interested in investigating the potential of growing and producing vegetable oil from sesame, jatropha, rape seed, and soy.

Recently ATI has become interested in a foot-powered pump that can draw from as deep as 6 meters and would be used for horticultural crop irrigation. The buyer of the pump would establish a water supply business. The basics of this program would be very similar to that of the manual press.

Impact: Minimal information on the beneficiary impact was available. Stimulating the sale of presses worth $198,000 in the first four years of operation (which had a project cost of $800,000) does not appear to be a good return on investment *unless* the additional revenue generated by the presses is substantial and a base has been established for considerable future growth. The 880 presses sold to date, if operated at full capacity, would generate less than $1.9 million in sales for an $800,000 donor investment plus $198,000 in processor investment, or a 2:1 sales-to-investment ratio.

Conclusions: The sustainability and secondary benefits of ZOPP need to be assessed.

A-2 FINDINGS ON ASSOCIATIONS AND UNIONS

Following are the basic findings on agricultural and agribusiness-related associations and farmers unions in Zimbabwe.

A-2.1 Commercial Farmers Union (CFU)

Sponsor: Self-financed

Project Value: N/A

Start Date: NA

Completion Date: Ongoing

Principal Objectives: Serve the short- and long-term needs of commercial farmers.

Association Development: Minimal, except themselves and their subassociations.

Financial Services: Minimal.

NTAE Development: Significant interest of members. Supports the Horticultural Promotion Council.

SME Development: Minimal.

Discussion: Basic CFU objectives include reducing unemployment (a major issue) by stimulating economic growth, adding value in Zimbabwe, helping less fortunate farmers gain from members' success, and stimulating a future market (i.e., increase Zimbabwe's buying power).

The CFU has a Farm Development Trust that develops model farms in cooperation with the Tobacco Association. It also supports a training institute for cotton. Coffee growers have their own SME development program.

Improved water management is an important opportunity. The key is determining how to best apply *existing* technology.

Impact: CFU is a major political, social, and economic factor in Zimbabwe's agriculture and agribusiness.

Conclusions: CFU seems to have a genuine, long-term self-interest in helping indigenous farmers and agribusinesses.

Issue: HPC has ZFU membership, but it is inactive. Why is this so?

Removing HPC from under the CFU and making it self-sustaining may be a lengthy and difficult process, but steps are currently being taken to do so.

A-2.2 Horticultural Promotion Council (HPC)

Sponsor: Funded by a levy on member exports

Project Value: N/A

Start Date: 1986

Completion Date: Ongoing

Principal Objectives: Stimulate exports of Zimbabwe horticultural products.

Association Development: Develop itself into a broad-based, viable, and sustainable association.

Financial Services: Minimal. Some credit mobilization for smaller members.

NTAE Development: Major focus of association efforts.

SME Development: Recent interest. Reorganizing to increase emphasis on this area.

Discussion: The HPC serves and promotes the export market–focused interests of all segments of the flower, fruit, and vegetable exporting industry of Zimbabwe. Its membership (predominantly white) includes producer associations of deciduous fruit growers, tree nut producers, potato growers, export flower growers, and citrus and subtropical fruit growers. Although it is "producer driven," exporters, freight forwarders, airlines, and supplier enterprises connected with horticulture are represented on the executive committee.

Since its founding in 1986, the HPC has been regarded as a part of the CFU, which funds its operation through collection of a 0.5 percent levy on members' exports. While it has provided some services to small growers, such as training for flower growers and helping to mobilize credit, it is not generally regarded by small-scale commercial farmers and communal farmers as serving their interests.

The main issues the HPC focuses on are related to enabling environment enhancement, policy improvement, logistics upgrading (especially transport), product consolidation to improve the utilization of chilling and other fixed assets of members, and negotiation of better air freight rates.

Association members, the larger of which have their own staffs, include the powerful Commercial Farmers Union, the Horticulture Producers Associations (which are members of the Zimbabwe Farmers Union), and specialized commodity associations.

In 1994 members shipped 7,000 metric tons of flowers, of which 63 percent went on scheduled cargo flights and 17 percent on charters, and 5,000 metric tons of vegetables, with the majority being shipped on passenger aircraft (due to the higher airline income per pallet/cube) and less than 5 percent by scheduled cargo airplanes.

Other findings included the following:

The major barrier to entry into the horticulture business is the low availability and the high cost of financing, especially for floriculture. Local financing is at 30 percent+ interest, while offshore financing (which can be used for up to 70 percent of working capital requirements) is at 10–12 percent. However, the latter is much more difficult to obtain for a producer who is not well established.

- Large commercial farmers have used cash generated from other crops (e.g., maize and wheat) to finance their entry into horticulture. They are interested because horticultural products yield a much higher value per hectare. Producers then organized themselves into companies (there are three large ones) to jointly manage packing and export.
- The average flower farm is 2–3 hectares, citrus farms average 16–24 hectares, and vegetable farms are much larger.
- There are about 30 flower growers and 1,000 vegetable growers widely dispersed around Zimbabwe, but all are near a reliable water supply.

Currently, and partly in response to requests from the Ministry of Agriculture, HPC is undergoing a restructuring that will make it more independent of the CFU and ostensibly better able to serve smaller farmers. It expects to be given broad-based levying authority by government legislation and would then become self-supporting. Membership in the council will be open to individuals and associations that pay the required levies. The HPC secretariat, under the leadership of Stanley Heri, hopes to set up special subcommittees for education, training, and air freight coordination as part of the restructuring process.

While it is too early to say what the effect of the restructuring will be, it is likely that the interests of large-scale commercial farmers and exporters will continue to be the primary focus. Officials of the HPC believe that the best way to help the small-scale farmers is to "piggy-back" them on the large-scale commercial sector through outgrower schemes.

Management of the HPC is interested in receiving external (donor) funding to assist in carrying out activities such as training and information dissemination for the benefit of all members. It remains to be seen to what extent the HPC will be willing to use its resources to support activities that strengthen small, black-owned NTAE entities who wish to break away from outgrower schemes and go it alone.

Impact: HPC's impact on Zimbabwe horticulture has been substantial, but many of the benefits have been enjoyed by the larger commercial farmers.

Conclusions: HPC's export market focus may make its services of less value to smaller producers and processors.

The reorganized HPC will need to include financial assistance, direct or indirect, in its range of services.

The Development of specific small-to-large farmer linkage programs needs to be a high priority of the restructured HPC.

The new HPC should be a good intermediary for donor-supported training and/or financial assistance activities.

A-2.3 Indigenous Commercial Farmers Union (ICFU)

Sponsor: Members

Project Value: N/A

Start Date: 1995

Completion Date: Ongoing

Principal Objectives: Serve the needs of its indigenous, commercial farmer members.

Association Development: As related to itself.

Financial Services: An area of member interest, especially as related to horticulture.

NTAE Development: Likely key area of interest.

SME Development: Some interest, but the association is producer driven.

Discussion: The ICFU is a new organization, which expects to complete registration formalities in 1995. As of October 1995 there were about 700 members, primarily indigenous black farmers, including both owner-occupiers and tenants. Many members have small farms near the main urban centers. Although these members farm small areas of land, many have developed substantial businesses by concentrating on intensive enterprises such as horticulture, pigs, and poultry.

The ICFU plans to have local branches in the main farming areas, which will be coordinated by a national executive committee. Finance will be provided by a levy on members' sales. They also hope to obtain assistance from international donors to help them get started. Once the union is established, they plan to provide the following major services to members: (a) lobbying government on matters of interest to members, (b) providing technical extension service, which they feel is needed because Agritex concentrates on smaller farmers, (c) assisting with budgets and loan applications, (d) comprehensive training, and (e) assisting with the Agricultural Graduates Association. (The ICFU has close links to the University of Zimbabwe and has organized a scheme to find vacation employment for agricultural students on members' farms.)

Union officers believe that NTAEs will be a key area of interest to their members. In particular, they hope to be involved in the development of outgrower schemes and the provision of special credit facilities for horticulture.

Impact: Yet to be established.

Conclusions: The ICFU is being formed because the CFU has not adequately served the interests and needs of the indigenous commercial farmers. This situation will make donor work with the CFU politically difficult.

Issue: How would the ICFU "fit" into the restructured HPC?

A-2.4 Zimbabwe Farmers Union (ZFU)

Sponsor: Members

Project Value: N/A

Start Date: NA

Completion Date: Ongoing

Principal Objectives: Serve the needs of small, indigenous farmers.

Association Development: Itself and members of its Horticulture Producers Associations.

Financial Services: Tries to help members obtain credit through AFC.

NTAE Development: Have worked with Selby, Favco, and Hortico on linkage/outgrower programs.

SME Development: As related to producer forward integration.

Discussion: The ZFU represents primarily the *small* indigenous farmers of Zimbabwe, although any farmer may join. The ZFU is organizing *farmer groups* for marketing and obtaining inputs.

ZFU started working with 30 farmers organized into four HPAs in the Shamva area three or four years ago to promote a vegetable outgrower scheme with Selby Enterprises. According to ZFU, this scheme was a modest success, as the growers were able to market some product through Selby, although the amounts were very small (about 120 kg per week of baby corn and 25 kg per week of mange tout peas). The arrangement included extension services and inputs supplied by Selby. Producers had to agree to deliver at least 80 percent of their production to Selby's packhouse. Similar schemes have been promoted more recently by ZFU with Hortico (green beans, mange tout peas) and FAVCO (mostly fruit).

ZFU monitors these programs and has concluded that producers are "being skinned" by exporters. They claim that large-scale commercial farmers routinely receive higher prices than small farmers for produce of the same quality.

ZFU sees its role as that of an intermediary between farmer groups and exporters to protect farmers from being taken advantage of. Another function is to look for markets for products already being produced, such as deciduous fruit. ZFU also helps farmer groups obtain credit through AFC, though the lack of title to land has proved to be an obstacle.

There are ongoing problems with ZFU's membership in the HPC. Since HPC regards ZFU as primarily a political organization. Communications have not been good between the two organizations. It is likely that some of the problems could be overcome if individual HPAs organized by ZFU were to become members of HPC rather than ZFU itself.

A key issue raised by HPC management is the payment of levies by small farmers. HPC's position is that small farmers can avail themselves of HPC services if they pay the same levies as do large farmer members. This should not be a problem for ZFU members because its HPAs are already paying dues to ZFU and these could be increased to meet the requirements of HPC.

Impact: Needs further assessment, especially as related to NTAEs.

Conclusions: ZFU works with subassociations (HPAs) to make their operations more effective and efficient.

Achieving significant tonnage sales via linkages/ outgrower schemes, without donor assistance, is challenging.

There is considerable misunderstanding and distrust on the part of producers concerning packers or exporters paying for produce, especially as related to product grade-out, and the appropriate price for various terms of sale (e.g., FOB factory versus field pick-up, COD versus consignment, and TA provided versus no TA).

The lack of clear title to land necessitates group lending schemes, possibly via associations such as the HPAs.

While the ZFU is willing to work with the CFU, it wants to retain its own identity. The logic of producers paying dues to their HPA, the ZFU, and the HPC may be difficult for some members to understand, and the responsibilities and services of the various organizations would have to be carefully coordinated to avoid duplication.

A-3 FINDINGS ON DEVELOPMENT FINANCE ORGANIZATIONS

Zimbabwe has a broad range of financial institutions that serve the NTAE and SME subsectors, including five commercial banks, an agricultural credit bank (Agricultural Finance Corporation), a Development bank (Zimbabwe Development Bank), a venture capital fund (Venture Capital Company of Zimbabwe), and a Small Enterprise Development Corporation (SEDCO). Financing is not a constraint to large firms engaged in exports, because they have access to offshore debt, which has a much lower interest rate than the current 30–35 percent domestic bank rate. For others, the lack of available financing and high interest rates can be a deterrent; for small-scale commercial farmers without clear title to land it is a particularly serious constraint.

Following are profiles of the most significant and relevant finance institutions in Zimbabwe.

A-3.1 Agricultural Finance Corporation (AFC)

Sponsor: Capitalized mainly by funds from the GoZ, but has received substantial donor funding from the World Bank, IFAD, Kreditanstalt. *ZFU works with subassociations* and the Kuwait Fund.

Start Date: 1923 as the Agricultural Land Bank; 1971 as the Agricultural Assistance Board

Principal Objectives:

Association Development: No special focus, but uses group lending to control transaction costs and improve the repayment ratio of small loans.

Financial Services: "To provide the agricultural sector with a diversified package of financial services."

NTAE Development: No special focus, but finances commercial farmers' NTAE businesses.

SME Development: Has a special division focused on smallholder development, but is limited to producers.

Discussion: AFC is a parastatal lending institution that grew out of a pre-independence agricultural bank geared to serve the large-scale commercial farming sector. Since independence it has been a major source of credit to small-scale commercial farmers, communal farms, and resettlement farmers. It provides short-term loans for crop and livestock production, purchase of inputs, and transport, marketing, and labor costs. Loans for these purposes totaled about $400 million in 1994. Interest rates are 22 percent for the small-scale sector, compared with 31–32 percent for the large-scale commercial farms sector.

In the past, average loan size was small (only $102 in 1990) and was tied to a recommended package of inputs. Some observers have estimated that the typical loan was only enough to finance the cost of half the farmer's needed inputs. Lending of this type was closely linked with maize marketing, which was controlled by the government, and procedures were very cumbersome. Since 1990, AFC has made a number of changes in its lending practices, so data from previous years may no longer be relevant.

Medium-term loans are granted for irrigation projects and for purchase of machinery and equipment, while long-term loans are available for investment in land, establishment of tree crops, dam construction, and other infrastructure. The value of these two types of loans granted by AFC has varied from $800,000 to $12 million annually, considerably less than for short-term loans.

AFC's policy is to lend to the maximum extent possible to new *indigenous* farmers with collateral deficits (23 percent of current portfolio), but it has experienced collection problems with these developmental loans. By 1990 arrears in loans to smallholders ranged from 68 to 80 percent depending on the of recipients. These loans have not produced the desired results, partly because of drought conditions, and because many borrowers are unlikely to be able to service these loans in the near future they are not eligible to borrow again. The costs of administering smallholder lending has proved to be extremely high.

After experiencing these very high default rates on loans to individual small farmers, AFC started group lending programs in 1989 (partially supported by IFAD), often administered by NGOs. This activity led to an increase in group loans from 100 in 1989 to about 16,000 in 1994. Some loans were made directly to producers recommended by NGOs and some were made to NGOs for on-lending. Very few of these loans were for agribusinesses; nearly all were for production agriculture. Loans are monitored by branch offices in every province and almost every district of the country. Groups initially averaged about 50 members, but after an evaluation of AFC group lending programs, the groups have been reduced to between 10 and 25 members.

Despite these changes, direct lending by AFC to groups *proved to be too expensive*. Current policy is to wholesale loans to farmer groups through intermediaries, such as NGOs.[11] AFC encourages NGOs to *link loans to savings schemes*. AFC loans are guaranteed by the government, but every effort is made to monitor loans and minimize the number of defaults.

AFC is trying to function and operate like a normal bank including raising money in the local and offshore money market. This will involve separating commercial lending operations from development activities. Commercial lending will be privatized, and development operations will then be better able to cooperate with donors. This reorganization is necessary because the GoZ's resources are inadequate to continue subsidizing the bank.

AFC recognizes it must become more responsive to clients' needs, and is evaluating ways to decentralize loan operations and speed up loan processing. Employees also need training in rural banking, including assessing the viability of agricultural loans, and in savings mobilization.

AFC has access to offshore capital at 10–12 percent interest rate, and mixes this with local borrowing at 30–35 percent, so they lend at a minimum of 22.5 percent, allowing for a spread of between 7 and 7½ percent, which includes a 6 percent administrative margin and a 1½ percent mortgage cover.

Other AFC findings include the following:

- Small farmers' major problem is lack of sufficient water. Communal financing of a water supply network is a big opportunity, but debt servicing and system management are big problems. Producers can rarely afford to pay for the cost of water from the new system when capital cost amortization is included, and they have little or no experience in water system management.
- AFC sees the need for rural input supply and output marketing stores, but has witnessed very little interest in this area by borrowers.
- Entrepreneurs lack the technical skills to move from subsistence to commercial-scale enterprises. Service companies are needed to help this transition take place, especially for inputs supply.
- The domestic market is underserved, but as the market matures the lack of *cost competitiveness* on the part of many local enterprises will challenge their success.
- AFC supplies most of the funding for ARDA. The restructuring of AFC and ARDA will allow both firms to increase their focus on commercial development, where there are several good opportunities.
- Transport availability and an inadequate road system are major constraints to agribusiness marketing activities.
- Except for the large producers there is a considerable gap between the producer and the market (i.e., most smaller enterprises do not understand how marketing impacts what they need to grow and package or process).
- AFC officials are very interested in working with USAID projects for the benefit of small farmers and agribusinesses. Loan applications by groups who have received assistance from USAID activities would receive favorable treatment.
- AFC management believes their commercial activities are more constrained by the lack of viable projects than by a shortage of funds.
- The GoZ/Ministry of Agriculture, to whom AFC reports, do not fully comprehend the need for AFC's financial restructuring nor the magnitude of opportunities and strategic options that AFC has. The Ministry of Agriculture focuses primarily on production and the GoZ has very limited resources for investment in AFC.
- Due to the drought and the high cost of money, AFC approved 15 percent fewer loans in 1994 than in 1993. Decontrol of agricultural produce marketing created price uncertainty and the drought reduced output and raised unit costs. This caused cash flow and debt repayment problems for producers.

Impact: Nearly $24 million in loans were made in 1994, of which just over 24 percent were made to the "development sector."

AFC generates an operating surplus, but some of this may be a function of its access to low-cost/subsidized funds.

Conclusions: Producers respond positively to constructive new financial concepts.

Even a parastatal can work effectively with donors and become involved in innovative and more risky lending. But it is difficult for a parastatal to view agriculture on a broader-than-production basis.

When the commercial and developmental parts of AFC are separated, the development portion will represent a good intermediary for joint donor support of indigenous enterprise development. AFC has experience in a range of financial support mechanisms and is experienced working with donors. However, its agribusiness experience is limited.

Keeping smallholder transaction costs low and repayment ratios high is difficult even for well-managed institutions. Group lending via intermediaries (such as NGOs) appears to be one way to control these costs.

For group lending the optimal size is 10–25 members.

Financing (initial and ongoing) and managing communal irrigation networks are significant challenges.

A special activity/project/fund is needed to convert the debt of viable agribusiness SMEs to equity so that they can establish themselves; especially during difficult economic times, such as that caused by the current drought.

There is a significant need for enhancing Indigenous SME cost competitiveness, possibly via training or mentoring by successful entrepreneurs.

Issues: What is the most effective way to reorganize and finance AFC's two major areas of interest? How can AFC play a more important role in agribusiness development and agribusiness commercial lending?

A-3.2 Africa Project Development Facility (APDF)

Sponsor: IFC/World Bank; some USAID support

Principal Objectives: Perform feasibility studies on and source financing for larger commercial projects.

Financial Services: Sources financing, sometimes via IFC.

SME Development: Minimum size project is $250,000 in new financing.

Discussion: APDF will now assist projects with a total new investment of as low as $250,000, and will negotiate the cost of the feasibility study fee.

Money is available in Zimbabwe, but lenders want collateral, and this is difficult for smaller entrepreneurs.

APDF has successfully worked with the Venture Capital Company of Zimbabwe (VCCZ), where APDF does the feasibility study and identifies sources of debt financing and VCCZ supplies part of the equity.

FMO (Dutch) provides some assistance for post start-up business implementation, but has minimal interest in SMEs.

Impact: Positive; but mostly for larger nonagribusiness firms.

Conclusions: If NTAE associations become large enough and well-organized enough to develop their own packing/processing facilities and act as a principal for members' inputs and outputs, APDF could help assess the feasibility of the operation, develop a business plan, and source both equity and debt financing.

A-3.3 Barclay's Bank Small Business Center (BSBC)

Sponsor: ODA (UK), SIDA/FMO, NGOs, and GoZ. Donors furnish 75 percent of funds at subsidized rates; the remainder are from Barclay's Bank.

Project Value: $3.7 million

Start Date: 1993

Principal Objectives:

Financial Services: Finance the start-up and expansion of SMEs with fewer than 20 employees and net assets of less than $6,200. No equity provided.

SME Development: See above.

Discussion: Client interest rate is 1 percent above BSBC's (subsidized) cost. BSBC will waive the usual collateral requirements if the applicant's track record and recommendations are good enough.

Offers only limited assistance on loan applications and business plans but does refer potential clients to sources of assistance.

Uses a network of neighborhood contacts to assess borrowers instead of the more traditional profit- and -loss balance sheet/collateral approach.

Impact: Default rate has ranged from 10–15 percent since inception.

More than half of BSBC's clients do well enough to qualify for further lending or graduate to become regular clients.

Opened a second center in Harare and is interested in work in more rural areas.

Conclusions: SME entrepreneurs who are willing to submit to detailed bank scrutiny and who have strong recommendations are usually good risks, even with minimal collateral.

Loan officer knowledge of the geographic area, the references of the borrower, and the business being financed are essential if financing is to be provided on bases other than collateral secured. This neighborhood networking approach to lending works, and should be even more effective in rural areas, where everybody knows everybody. However, lending of this type requires specially trained loan officers, who have in-depth knowledge of the market and community they are serving.

A-3.4 Economic Development for Equatorial and Southern Africa (EDESA)

Sponsor: 26 "Global 500" Public and Private Corporations from the United States, Europe, South Africa, and Japan

Project Value: Paid up capital = $25.4 million; investments = $19.3 million; loans = $9.7 million

Start Date: 1973

Completion Date: Ongoing

Principal Objectives:

Financial Services: Foster the economic development of the target countries by stimulating private enterprise through the provision of finance and know-how.

NTAE Development: Nothing specific, but many of EDESA's investments are in export floriculture.

Discussion: EDESA has offices in Zurich, Harare, Nairobi, Johannesburg, and Monrovia. Its 30 equity investments are primarily in Southern Africa and several are in high-value agriculture, agricultural inputs supply, and food processing.

Hire purchase and leasing of capital equipment is an important business of EDESA, which has $133 million in assets, 42 percent of which is in agribusiness/agriculture.

EDESA's largest current business segment is the Projects Division, which focuses on SMEs needing less than $1 million in total financing (either debt or equity). The pure lending segment of the business, which was based on government syndications of loans, suffered from serious defaults and is now very small. The New Services Division focuses on (1) strategic investments (e.g., EU-based importers for African produced products or international companies with especially good potential in Africa) and (2) consultancy to the World Bank, IBRD, and Southern African governments.

EDESA-owned UDC in Harare has a Dutch-backed preferential rate facility for SME hire purchase or leasing, but there is very little demand because SME entrepreneurs are not familiar or accustomed to this financing mechanism.

The company owns more than 18 hectares of shade rose production in four Southern Africa countries, and produced more than 60 million stems in 1994. It believes that rose production in Holland will decrease due to high costs and environmental degradation. Africa has a normal land use cost advantage over other sources.

EDESA has three projects in Zimbabwe, including a specialty foods processor that successfully uses outgrowers.

Other EDESA findings:

- Financing is available, but the cost of financing is a constraint.
- Big producers tend to get "fat and sloppy"; thus, SMEs can effectively compete with them if they can get the needed training and financing at a reasonable cost.

- The cost of doing the front-end work for and monitoring of smaller investments is a big problem.
- Basic professional management skills are not available in Southern Africa, although technical skills are.
- Hawk Investments (owned by Anglo-American from the RSA) reportedly has an interesting approach for combining TA with financing.

Impact: EDESA has been very successful from the point of view of asset growth and return on investment. It has stimulated the development of many new businesses in Southern Africa and significantly increased trade between Southern Africa and the EU.

Conclusions: Professional management and a very clear focus on asset growth and return on investment (without subsidization or nonrecoverable assistance) can have a very positive impact on economic development.

EDESA would be interested in an ASC/FADC/Incubator activity that would prepare SMEs for involvement, with EDESA.

A-3.5 Venture Capital Company of Zimbabwe (VCCZ)

Sponsor: Major Zimbabwe banks and insurance companies.

Project Value: $13.3 million

Start Date: July 1991

Completion Date: Ongoing

Principal Objectives:

Financial Services: Use a mixture of equity and debt to finance new or expanding manufacturing businesses. Achieve a 20 percent real return on investment.

NTAE Development: No special focus, but would be glad to finance agribusinesses.

SME Development: Official minimum size investment is $333,333 and ranges up to $2.7 million.

Discussion: Financing is 57 percent equity (average share is 49 percent and limit is 49 percent- for any significant length of time) and 43 percent debt. VCCZ blends some government "soft" debt with internal sources. VCCZ financing cannot exceed 75 percent of total financing. Average investment is currently $320,000 (despite the $333,000 official minimum). VCCZ has invested in 33 companies, several of which are in agribusiness; only one has failed, but six others are marginal.

VCCZ has invested $5.3 million of $13.3 million in funds. *The major constraint is investable ideas.* Entrepreneurs often want to enter well-served markets and lack management experience and marketing and financial expertise. This means VCCZ must perform a major competitive assessment of the market a potential client is going to serve and how they will be able to protect it once it is captured.

VCCZ is Considering establishing a consultancy division to help clients after they receive financing. They now ask clients to use qualified consultants to help develop business plans and effectively implement them. All clients must use an approved accounting firm and submit weekly sales, orders, and inventory reports, which are closely monitored.

VCCZ wants to reduce the typical debt-to-equity ratio of a client from 2:1 to closer to 1:1, especially considering the high cost of debt.

VCCZ would like to see clients focus on high-opportunity subsectors, but identifying them is difficult for both VCCZ and their clients.

It is difficult to get entrepreneurs to cooperate and pool their resources because each wants to "do their own thing."

Exposure to RSA industry would be a significant problem if the border were to become more open since RSA firms have greater scale economies and more experience and would therefore be very strong competition.

VCCZ's board and financiers are conservative and are most interested in short-term returns. They need to better determine how to assess long-term investments.

Impact: Twenty-six companies are doing well and 810 new jobs have been created by VCCZ investments.

Conclusions: Checking the veracity of project proposals (especially as related to market share assumptions and the marketing plan) and hands-on mentoring and oversight management after financing are critical to the success of an investment, particularly in rural areas and agribusiness.

A lack of investable ideas is a greater constraint than lack of available financing.

An institution that helps entrepreneurs prepare a financing proposal and then operate their businesses in a manner that ensures financing repayment/increasing share values will help stimulate more new SMEs and the growth of existing enterprises.

Training programs are needed to help entrepreneurs develop their management and financial skills beyond the limited scope of their former positions.

Financial services by themselves will not stimulate economic development as much as *integrated* financial, managerial, and technical assistance.

A high debt-to-equity ratio puts interest cost and ROI pressures on new/rapidly expanding businesses, especially in high interest rate environments.

VCCZ is interested in an ASC as a means to develop companies it could invest in when they become large enough.

A-3.6 Zimbabwe Development Bank (ZDB)

Sponsor: GoZ (51 percent), several international development banks (49 percent)

Principal Objectives:

Financial Services: Typical development bank with some interest in agriculture and agribusiness.

Discussion: ZDB covers all sectors of the economy, but began financing agriculture only about five years ago. It operates much like the International Finance Corporation in that it makes medium- and long-term loans following normal commercial bank lending principles, and also takes equity positions in enterprises. The minimum size loan is $13,000, though the average size loan is closer to $67,000. Most loans to NTAE-related borrowers are related to water supply, such as small dams, boreholes, and water pipelines, pumps, and drip irrigation systems; but greenhouses are also financed. Equipment financed by these loans is procured locally in Zimbabwe dollars, but items such as electric motors, sprinklers, and flower planting materials are typically imported.

ZDB has access to lines of credit abroad at interest rates between 9 percent and 12 percent, which enables it to offer loans to qualified local borrowers at around 22 percent when foreign-sourced equipment is involved.

Collateral requirements are such that the bank does not finance communal farmers or small-scale commercial farmers who do not have title to land. In addition, farmer groups that are not registered as companies are not eligible.

Unfavorable government land ownership policies are a major constraint to agricultural lending, particularly its "pre-emptive right" to take land, and the use of short-term tenant leases as opposed to outright purchase or the granting of 99-year leases.

Impact: ZDB has helped large firms but has had little impact on communal activities or agribusiness Indigenous SMEs.

Conclusions: The commercial portion of AFC will likely be in a better position than ZDB to support agribusiness.

A-3.7 Zimbabwe Banking Corporation Limited (ZimBank)

Sponsor: Commercial bank

Principal Objectives:

Financial Services: Commercial bank with an extensive agricultural and agribusiness portfolio, a Small Business Services Division, and a merchant banking division (Continental Investment Company).

NTAE Development: None, though some of the enterprises financed are in export horticulture.

SME Development: The Small Business Services Division focuses on SME clients.

Discussion: Most ZimBank clients are large commercial farmers, whose debt-to-equity ratios are high and getting higher. This is due to the drought, the cost of capital, and inflation. ZimBank offers offshore financing at 10–11 percent for clients with a hard currency income stream. Most producers' interest in forward integration is based on their need to capture a larger portion of consumer prices and the desire for a better financial return per hectare.

Most flower producers self-finance their fixed asset investment and borrow offshore for working capital; export vegetable producers do the same. Local produce sellers cannot access offshore finance and are subject to substantial local market price fluctuations.

Impact: This successful local bank with a large agriculture/agribusiness portfolio has helped finance many Zimbabwean agribusinesses.

Conclusions: Due to high interest costs, it will be difficult to use debt to finance new NTAE businesses that are not fully integrated; that is, that can capture most of the margins available between the producer and the consumer.

Margin and financing pressure on large farmers may make them hesitant to provide significant support to Indigenous SME development unless there is a short-term benefit to them for doing so.

A-4 FINDINGS ON PRIVATE AGRIBUSINESS FIRMS

Following are the basic findings on agricultural and agribusiness-related private firms in Zimbabwe.

A-4.1 A&S Business Development and Promotion Consultants (A&S)

Agribusiness management consultants with backgrounds in ARDA and University of Zimbabwe.

Principal Objectives: Provide business services to public and private sector clients.

Discussion: Commercial farmers own between 50 and 10,000 hectares each, while communal farmers average less than 2 hectares. Seventy to eighty percent of the population lives in communal areas, which have a division of authority between local chiefs and Zimbabwe government representatives. There are 10–12 chiefs each in Zimbabwe, each responsible for 5–10 villages of about 1,000 people each. Most communal areas are located in districts 3, 4, and 5.

Agritex is perceived as a strong organization; although Agritex agents do not have training in NTAE production and have minimal understanding of marketing. There is considerable local support, especially at the communal level, for HPC to have its own extension service, supported by a levy on exports, and possibly on domestic sales.

Total communal production of horticultural products is probably as large as commercial production, but it is sold primarily to the local market.

There is a strong belief that local demand for horticultural products is not being met, but assessment of local buying power is quite difficult. Much of this unmet demand is in the off-season.

The perceptions gained from talking directly to beneficiaries, can be quite different from the perceptions gained from talking to those who are supposed to be helping them.

Impact: Not relevant.

Conclusions: The merits and feasibility of an HPC-supported extension service (possibly via an alliance with Agritex) should be investigated.

Communal work must involve local chiefs and relevant GoZ officials.

Opportunities to balance domestic supply and demand should be thoroughly investigated, especially regarding the role of Indigenous SMEs therein.

A-4.2 Favco Limited

Principal Objectives: Achieve an acceptable profit/return on investment to shareholders. Increase the size and geographic scope for producer/owners' markets.

Discussion: Favco is associated with Topfruit (a deciduous fruit producers cooperative) and functions as a horticultural products import/export company. It is also related to FarmaFresh, which manages 27 large, leased retail produce sections in supermarkets, 18 of which are in Harare. Favco buys from Topfruit and directly from farmers.

Export produce is purchased directly from large growers and usually via middlemen from small producers. Export product is sourced from large producers because they have the skills to produce the specialized fruits and to meet customer specifications. However, for stone fruit, 4 hectares is the largest plot that can be properly managed. Irradiation of stone fruits to extend shelf life may have good potential, especially for mangoes.

Favco does not use production contracts, but does have "gentleman's agreements" for marketing the output of selected producers (most often Topfruit members).

Twenty to forty percent of Favco's vegetable exports come from small producers. The major limitations on using more smallholder production is the smallholders' lack of on-farm or near-farm cold storage and high residual pesticide levels.

Nearly 50 percent of Favco's exports are to neighboring African countries, much of the rest is to Europe. They also sell snow peas to Singapore and Australia and fruit to the Middle East. Saphir is their importer in Europe, especially to the United Kingdom.

The EU is the dominant export market for Zimbabwe horticultural products. RSA is more of a competitor than a customer because RSA has significant tariff barriers, export incentives for its domestic producers, and the same climate as Zimbabwe.

The most important constraints to increasing Zimbabwe's NTAEs (especially fruits and vegetables) are high air freight costs (one can truck to Johannesburg and get better rates), high ocean freight costs for refrigerated containers, and the high cost of financing when offshore financing is not available.

The most significant opportunities for Zimbabwe's NTAEs are in the Far East and Middle East markets, and include specialty fruits and vegetables.

Impact: Favco has had a significant positive impact on Topfruit members' export sales and on Zimbabwe's regional exports.

Conclusions: There is a viable regional NTAE market, and there are available non-African markets other than the EU.

A-4.3 Flair Flowers

Principal Objectives: Diversify the markets and customers served by the company. Achieve an acceptable price for owners' flower output.

Discussion: The company is owned by 10 of the 30 large flower producers in Zimbabwe. It will sell around $9 million in roses in the 1995 season.

Flair's major customers are Albert Hein in Holland and Cassino (formerly Todex) in Germany, but Flair sells excess production worldwide.

The dominant flower sold is roses with a focus on mid-length stem and mid-price range varieties for maximum volume. They are looking for new markets and for specialty products for specific markets (for some price protection). Management tries to establish a fixed price for the season (9 months), so it will be under the market at the beginning and end, but slightly above the market in the middle of the season (where most of the volume is). The Dutch auction is used only for excess production.

One objective is to force the Dutch out of early- and end-of-season production by using labor-intensive varieties and packaging.

The primary limit on Flair's expansion is high air freight costs. Affretair (a parastatal slated for privatization), which has monopoly control of the air freight licenses needed for each shipment, will not issue a license unless their planes are full. They also set the rates, which others must follow if they want to be issued licenses. Air France is trying to bring the rates down, but Affretair is resisting, probably because they are flying old equipment (at a higher cost) and want to be profitable for privatization.

Flair most often uses passenger air freight because it is more reliable (especially to the United Kingdom) and between vegetable producers often take up all of the available cargo space because the yield to the carrier is better on vegetables. Roses cube out on a pallet, but vegetables go over the base weight and are therefore assessed a surcharge, generating more revenue per pallet for the carrier. A pallet costs $5,040 for the first 2,100 kg to ship to Europe plus 75 percent of the per kg rate over 2,100 kilograms. A passenger aircraft holds 13 pallets and a cargo plane 30.

SME participation in flowers is limited because a minimum of 2 hectares of shade is needed for economies of scale and the minimum cost per hectare to develop 2 hectares is $334,000. Summer flowers are not as capital or technology intensive, but prices are heavily dependent on Israeli output.

The best expansion opportunities include:

- New (for Zimbabwe) varieties, but need to avoid niche (small) markets
- Better quality production and quality control to the end consumer
- Enhanced application of known management and technical advances
- Further reductions in marketing channel layers (i.e., Flair selling directly to large retailers in consumer packs)
- HPC doing a better job of lowering freight rates

Impact: Flair has been very successful at helping grower-owners market their output at a good "net back."

Conclusions: Shade roses can be financially rewarding but require a large capital investment, relatively high technology, and very professional international marketing management.

Producer-owned marketing entities *can* be very successful international marketing organizations. The key to success is the professionalism and quality of management and the competitiveness of its members.

A-4.4 Gev's Flowers

Principal Objectives: Develop a sustainable export flower business.

Discussion: Gev's Flowers, in its third season of operations, is one of the more successful black-owned horticultural exporters and a member of the Flower Growers Association. The main product is asters grown in plastic greenhouses covering 2½ hectares, and they are experimenting with new colors of asters and considering growing roses. Gev's Flowers exports to the Dutch auctions through local Dutch agents (Produco) and receives technical assistance from Holland, which is very expensive, about US$160 per half day.

Major constraints to further development (especially for Indigenous SMEs) are:

- *Finance:* Bankers are not sensitive to Gev's needs, interest rates paid to the ZDB are high (22 percent), and there are too many intermediaries.
- *Information:* "The big guys keep all the information to themselves." However, ZimTrade has been helpful, and recently sponsored a study tour to Europe for Gev's management.
- *Market diversification:* Would like to sell directly in Germany as a way to diversify and earn higher returns. However, the risks (payment, price, etc.) of direct selling are greater, while auctions offer the advantage of assured weekly payments.
- *Training:* Would like to see in-service training available for greenhouse employees, possibly modeled after the courses offered by the Tobacco Institute.
- *Land and water availability:* Believes more blacks would participate in flower production and exporting if land were available for them to buy or lease on a long-term basis.

Impact: Gev's financial success needs further review but appears satisfactory.

Conclusions: Indigenous SMEs can be successful in the NTAE business but owners/management need support to develop marketing and management skills as well as to tap into all available sources of assistance and commercial relationships.

A-4.5 Hortico

Principal Objectives: Sell the horticultural output of its large commercial farmer owners at an acceptable price. Develop other export business that is supportive of and not in conflict with the primary objective.

Discussion: Works with a U.K. importer, Saphir, on an exclusive basis, supplying mainly tray-packed mange tout peas, baby corn, and green beans.

Director/owners do most of the new crop development work, so Hortico "protects" them on these crops for a period of time.

If producers follow Hortico's instructions as to crop selection, timing, and hectareage, the company will market all of their output.

The company has begun an outreach to small farmers, some at great distance, to increase the supply of specialized crops that require considerable individual attention, which is difficult to get from large farmers. Hortico has committed some manpower to this, but believes that with additional funds (or ASC/ADC/incubator facilitation) they could develop a very effective marketing channel for rural, communal production, processing, and transport. However, smallholder production represents a small percentage of their total sales.

For large producers, sales are on consignment and based on grade-out and the actual EU market price received, less a Hortico commission. Small producers are usually paid a "spot" price based on grade-out and anticipated market prices. Therefore, large producers take the market risk and Hortico takes it for small producers. Large producers (commercial farmers) also supply their own transport to the packing house and Hortico picks up product from smaller (communal) producers.

Hortico is now subsidizing small producers because it may be able to develop a scheme to use small suppliers less expensively. Furthermore, some crops lend themselves to the "tender loving care" that smallholders can provide, and some crops will grow better in areas other than where the commercial farms are located, such as in the hotter areas where the communal farms tend to be located.

Four field men work with Hortico's small growers on mange tout and baby corn, telling them how many hectares of each crop to plant each week based on anticipated European market conditions. Inputs, including seed, fertilizer, and pesticides, are supplied on credit and deducted from sales proceeds. Crops are picked up by Hortico trucks from assembly points in growing areas. As is the case with its large producers, Hortico agrees to take all the farmers' output if they follow instructions on planted area and planting dates.

The major constraint to working with smallholders is the lack of infrastructure in the growing areas, such as cold stores, transport equipment, and accommodations for Hortico field men. Small producers also sell in small quantities, resulting in high transaction costs. Thus, an enhanced infrastructure is needed for Hortico's to accumulate a sufficient volume of crops to reduce transaction costs and have a market impact.

Indigenous SME grower scheme results are described below:

- In 1991, Hortico worked with farmers in the Mutoko communal area in association with ARDA. Trials on sweet corn worked fairly well, with Hortico supplying all the inputs as well as extension services. However, purchases had to be restricted to less perishable products due to the lack of infrastructure, specifically cold stores and transport. ARDA acted as a middleman for purchases from farmers who grow crops in an area which totals 9-hectare area. FAO was also involved. There is apparently a trade-off between working with small farmers through an intermediary, which is simpler to administer and less costly, and dealing directly with growers, which ensures that quality and delivery dates are met.
- In 1993, Hortico worked with farmers on the Mudotwe irrigation scheme in Mashonaland Central, where infrastructure was better. Mange tout peas were produced successfully in 1994. In 1995, Hortico was asked to work with farmers on the Chimanda irrigation scheme, also in Mashonaland Central, but about 250 kilometers, from the packhouse. The first trials on green beans, mange tout peas, and baby corn were successful and the outlook is good for this group, though the distance may prove to be a constraint.

Hortico's strong preference is to work with *small farmer association* representatives, who set policies on how the association deals with Hortico, but have no direct involvement with production. Hortico pools the production of small producers. Deliveries are graded on arrival into three grades: #1, "other," and "waste." Producers are paid on the basis of grade-out for the pooled shipment.

A frequent complaint of the farmers is that they do not understand the price Hortico pays them for their production given different values for different grades. Hortico is willing to try to create a new and more transparent price determination system, including putting a representative of the farmer associations in the packhouse, but doubts that it will work because the system is difficult to understand. Another possibility is to bring in a consultant to help develop a workable system (e.g., pay individual farmers based on quality), but this would require a complicated bookkeeping system.

In Zimbabwe, technology transfer can occur from large-scale to small-scale producers. Thus, it should be easy to accomplish, because the difficulties have been worked out on the large farms.

Hortico is willing to help establish and manage smallholder producer associations if the conditions for successful Indigenous SME export vegetable development outlined below in the conclusions section can be met, or come close to being met.

Impact: While the total annual volume of Hortico's SME exports is relatively small, they have persevered in their attempts to find a feasible way to source products from smaller producers.

Conclusions: For successful Indigenous SME export vegetable development the following are needed:

- A large number of well-organized (i.e., a clear understanding of growing, support, and marketing responsibilities) producers in a reasonably confined geographic area with access to irrigation
- A cold storage unit at collection points to remove field heat and store the produce
- Availability of credit to facilitate a producer-owned transport/collection system
- Readily available qualified TA, primarily as related to quality control
- Access to a good communications system
- A focus on higher value products
- Shared production-related equipment such as sprayers
- Access to the local fresh or processed market for off-grade product and overproduction

A Horticultural Development Center could be funded to offer the services necessary for Indigenous SME success in export horticulture, especially with support from a firm such as Hortico.

Possible USAID interventions include assisting farmers to buy spraying equipment and investing in cold stores and an office at the assembly point for the growers' representative (to keep track of shipments). Farmers also need help acquiring irrigation equipment such as pumps, which would have to be gasoline powered in areas where there is no electricity.

The "service company" concept that was successful in Mashonaland East should be tried elsewhere. This is a joint packer/small farmer owned center that is responsible for land preparation, spraying, TA, consolidating, cold storage, transport, and so on.

A-4.6 Hortpack

Principal Objectives: Develop a viable, indigenous-owned, horticultural products packing company that sells on both the export and domestic markets.

Discussion: In the area around the mining town of Shamva in Mashonaland Central Province, a Mrs. Mavudzi has generated much interest about horticultural crop production for export among small farmers on a nearby irrigation scheme. Mrs. Mavudzi is a medium-scale black farmer who, along with three other black farmers, leases land on a government-owned commercial farm. She has acquired considerable experience growing vegetables for export since beginning in 1992.

This is an interesting example of a linkage between rural small-scale farmers and emerging medium-scale black farmers. Mrs. Mavudzi and the irrigation scheme farmers had earlier formed linkages with some white commercial exporters, but these broke down due to the lack of transparency in the way the exporters arrived at a price to the grower. Because of what she considered "cheating" on the part of the exporter, plus payments that were delayed up to 60 days, she decided to go it alone. Some baby corn and mange tout pea shipments have been made to Holland, the United Kingdom, and Switzerland, using a packhouse at "Hopedale Farm" to prepare the shipments.

Mrs. Mavudzi is forming an exporting company called Hortpack, which is in the process of being formalized by the Registrar of Companies. She and the other four farmers leasing land, plus 25 communal farmers, would be the shareholders. The company intends to lease a packhouse in Shamva, and to sell in Harare as well as to export.

Impact: To be determined, but should be closely monitored.

Conclusions: Medium-scale indigenous producers are interested in and willing to investigate forward integration activities, but will likely require considerable assistance.

A-4.7 Selby Enterprises

Principal Objectives: Achieve an acceptable return on investment for shareholders and earn a reasonable livelihood for owners**.**

Discussion: Selby Enterprises was started in 1989 and is owned by the two Selby brothers and one of their wives. It initially marketed passion fruit and now sells 14–15 different crops (including chilies, beans, gooseberries, sweet peas, sweet corn) to the RSA (three trucks per week) and other export markets. Most sales are fresh but some fruit pulp is processed, mostly from reject fruit.

Selby has taken advantage of its urban location and proximity to agencies such as ARDA to support its concentration on market value and quality. As a result Selby's one of the larger vegetable packers and exporters in Zimbabwe, and one of the first to develop an outgrower scheme with smaller/communal (100 percent black), farmers to supplement supplies from the commercial farmers (75 percent white/25 percent black) who meet most of their requirements. It works with 150 producers within a 150-kilometer radius of Harare, and focuses on the export market but sells second-grade product on the domestic market to help producers maximize their yield per hectare.

About 50 percent of Selby's purchases are on consignment; the other 50 percent are "spot" purchases.

They are working with ARDA to develop mange tout production systems for communal farmers. This product is now being sold on the domestic market, but they are working toward export sales.

Selby is quite flexible in its small producer procurement arrangements. When dealing with communal farmers and other small producers, they prefer to deal through intermediaries such as ARDA, an HPA, or other formal group if one exists in the area. This reduces administrative costs, as compared with the costs of dealing with individual small farmers, and the intermediaries' terms and conditions, due to the average size of their transactions, can be very similar to those of regular customers. Work with small producers is useful for developing new crops, because large producers do not like to work with small plots. However, too much involvement with small producers increases Selby's cost of operations and reduces their supply reliability, the latter being essential for EU market success.

Features of typical Selby arrangements with small farmers include the following:

Selby's establishes a production program for each grower, which includes planting dates, varieties, and so forth.

Farmers are usually supplied with seed, the cost of which is deducted from sales proceeds; other inputs, such as agrochemicals and fertilizers, are not supplied and the financing of these can be a problem for some small farmers.

During the growing season, Selby field men (they have two) visit each farmer at least every ten days to check the crop and to advise on any work that needs to be done.

When the crop is ready to harvest, field men keep in close touch with growers to maintain high standards of quality control at the field level and to arrange delivery dates.

Farmers are responsible for picking the crop and taking it to located in a petrol station. The capital cost of building these cold stores is a major constraint on the development of outgrower schemes serving Selby. Some small farmers lack suitable field crates to deliver their goods to the collection points, which can also be a problem.

In some cases, Selby will pay growers a fixed price for produce delivered to the assembly (collection) point, but most business is done on a consignment basis. Selby is prepared to offer a minimum guaranteed price in some situations, and to take responsibility for the risks involved in shipping overseas. Selby uses a standard "Terms and Conditions" agreement, which governs most aspects of their business relationship with suppliers, including chemical usage, record keeping, and so on. These agreements and the related records are available to Selby customers.

The accounting system used by Selby allows them to track each grower's goods through the marketing chain and, therefore, growers are, paid on the basis of the price their goods bring in the market, less expenses and commissions, rather than on the basis of a "pool price," which is used by some exporters. The account of sale sent to growers does not provide much information on how Selby arrived at the return to growers, but Selby will explain the system if asked to do so.

The most significant constraints to communal producers are their lack of working capital and poor infrastructure in the communal areas (e.g., irrigation, roads, cold stores, etc.).

Selby believes sweet corn, and especially baby corn, have very good production potential in Zimbabwe and market potential in Europe.

Import entry duties are the major barrier to the RSA market.

Harvest labor is short-term and intensive and there is ample labor available in the communal areas; this should be an advantage for communal production. However, there have been problems with farmers not paying for labor (and water) when it is used.

The interest in communal farmer development in Zimbabwe goes beyond commercial considerations and includes vested self interest (e.g., parameter security and political stability) on the part of commercial farmers.

HPC gets a 0.5 percent levy on all Selby exports and should be more aggressive in lobbying for better freight rates and less Affretair control over air freight. Since HPC is under CFU and CFU is producer controlled, it is difficult for exporters, especially ones like Selby that do not have grower-owners, to have any influence.

Zimbabwe government inspection of produce prior to export is erratic and not sufficiently based on market requirements.

Some commercial growers do try to export directly, but most come back to Selby due to the complications and difficulties of international marketing of a highly perishable product.

Impact: Selby's small producer programs appear to be the most successful in Zimbabwe.

Conclusions: Selby seems to have established the basics of a good outgrower scheme, which could be further developed with the help of more capital investment and greater price transparency.

The RSA market seems to have some potential, and Selby's basis for success should therefore be investigated.

The Affretair/airfreight cost issue needs immediate investigation, as it is a significant problem for all air exporters.

Appendix B
Detailed Profiles - Mozambique

The assessments that follow include summarized Objectives, Discussion, and Impact sections, and the Conclusions reached from that case study.

B-1 FINDINGS ON SUPPORTED PROJECTS

Following are the basic findings on agricultural and agribusiness-related donor-supported projects in Mozambique.

B-1.1 Care International em Mocambique (CARE)

Sponsor: Private and donors

Project Value: N/A

Start Date: Nampula Oilseed Extraction, 1994; Other programs, various

Completion Date: Ongoing

Principal Objectives: The principal objective in Nampula province is to get reasonably priced vegetable oil and some cash into the villages and help develop village-level markets. Group lending is intended to help develop/expand SMEs.

Association Development: Mostly informal, due to the lack of a legal structure.

Financial Services: Develop group lending for fishing, trading, and solidarity groups.

SME Development: Develop vegetable oil processing, fishing, and trading SMEs.

Discussion: The basics of the CARE oilseed development program in Nampula include:

CARE started distributing higher quality sunflower seed, sourced from Zambia and imported through SAMOK (parastatal seed company), for planting in January 1995. CARE is now doing their own seed multiplication in two of the four districts covered by the project via contracts with local farmers, and expect 8 metric tons of planting seed from these duplication plots in 1995. These farmers also do experimental work on varietals.

The project employs four extension agents, one in each district, each of which has four communities (each community is about 50 sq. km. each). The agents help farmers grow the seed (both for multiplication and crushing) and help press owners determine if they should buy seed or toll presses, and if they buy seed where and how to sell the oil and press cake.

In 1995 2,000 kg sunflower seed and 1,800 kg of sesame were distributed free of charge. Around 2,000 farmers have planted 0.2–0.3 ha. of oilseed each. The areas where the seed was distributed are traditional sunflower seed growing areas, but the collapse of Agrico (a parastatal crushing company) meant there was no market for sunflower seeds. Due to extensive intercropping, yield is in the area of 300 kg/ha.

In 1996 CARE will *sell* the planting seed. There are more than 1,500 farmers in the four districts that want to multiply seed. CARE plans to compensate farmers for seed duplication by farmers returning to CARE two times the amount of seed given to them by CARE and keeping the remainder.

Sixteen ATI presses (BP 30 model) have been sold at $120 each, 10 to farmers and 6 to nonfarmert has financed 9 of the presses. The oil yield should be around 20–25 liters of oil/100 kg sunflower seed; sesame yield will be higher. CARE supplies plastic containers to crushers for collecting the oil.

CARE is now implementing a marketing program for the oil. The producer may sell to a trader, (i.e., someone with retail-size bottles, a retail store, or access to transport to a market) or may sell in the village. Oil is not usually available in the village and users must travel 50–60 km to a market, where it sells for 3 times the guideline retail price (10,000–12,000 Metakesh) established by the project. Oil and press cake price's are difficult to predict, so CARE or API press owners' contracting for production would be difficult.

Lessons Learned (as related to CARE oilseeds project management)

- Perform do a thorough assessment of the agricultural and other considerations related to the geographic area selected for project work
- Staff the most senior positions first, rather than using the bottom-up approach that CARE used; get senior managers and field men involved in local staff and other decision making.

M&E considerations for the oilseed projects include:

- the extent to which community level (versus regional level) vegetable oil processing and trading enterprises develop,
- the extent to which enterprises evolve from pure trading and toll processing to principal (possession taking) processing and adding value.

The basics of the CARE group lending programs in Nampula province include:

Small Enterprise Activity Development (SEAD) involves solidarity (informal group) lending where a group puts up the necessary security, is mutually responsible for repayment, and determines who gets the loan proceeds. The objective is a self-sustaining credit (savings and loans) institution. The groups are informal because there is no relevant legal structure available. CARE's credit program for the fishing and trading sector, also located in Nampula province, uses the mutual guarantee of existing community institutions.

The biggest challenge to both of the SEAD and fishing and trading group credit programs is the limited understanding of credit by both institutions and individuals. How to establish a credit unit and how to manage it are quite unknown at the community level.

Group lending lessons learned by CARE:

- Be sensitive to political realities, especially the interests of political power brokers
- All credit projects should include a savings component.
- Asian (Indian) traders are in a major expansion mode now, they advance goods to farmers at the community level in exchange for their crops at harvest.
- CARE's group lending projects are an alternative to the Asian traders' modus operandi and encourage development of community-level institutions and help them protect their own interests.
- The Indian traders are in a major expansion mode given the total lack of infrastructure and ordinary commercial presence in the rural areas. The traders advance goods to farmers at the community level in exchange for their crops (largely cashew) at harvest. CARE's approach to group lending would be an alternative to the Indian trader's modus operandi. It would encourage development of community level institutions and help them protect their own interests. It would also begin to develop local political sub-structures and provide a more general way to develop savings as well as credit structures.

M&E considerations for group lending projects include: unit transaction costs, the repayment rate, the sustainability of the credit entity, the capital base of entities, and the savings rate of their members/clients.

Other CARE Findings

The (usual procedure for developing a new CARE implemented project is for the local CARE unit will develop a proposal for a project, its feasibility will be assessed by country-level management, and if feasible it will be passed on to CARE's Atlanta headquarters for approval. If it is approved, donor support will be solicited.

CARE management observes that while there is a very minimal legal framework in Mozambique, there is also very little government resistance to most PVO programs since they have very high credibility with the government, due to their very significant efforts to provide food and housing to the rural population during the recent times of crisis even during the war.

Impact: While these programs are quite new, they appear to be off to a solid start. The number of beneficiaries is increasing rapidly and CARE's reputation is quite good with both beneficiaries and contributors.

Conclusions: CARE's very professional management and strong interest in localization of personnel for most operating positions has enabled their projects to get off to a solid start.

Education and training on the principles and practices of group lending will be required if group lending projects in societies evolving from collective socialist structures are to be successful.

There is a unique opportunity to help establish community-level SMEs shortly after the change from socialism and parastatal-managed marketing to a private enterprise–based economy.

It is necessary to conduct a careful and multidimensional viability analysis before choosing the geographic area for a project or activity.

Staffing senior-level local positions first will facilitate more local input into project design refinements and lower level staff selection.

All credit projects should involve a savings component which will provide the source of future loan funds.

Community-based group lending programs may be an alternative to local traders' control of rural commerce, cash flow, informal lending, and access to key crops such as cashews.

B-1.2 Food and Agriculture Organization/ Ministry of Agriculture (FAO/AgMin)

Sponsor: United Nations/GoM

Project Value: N/A

Start Date: N/A

Completion Date: N/A

Principal Objectives: Primary interests are to provide extension services to support the production of subsistence crops and the management of state farms.

NTAE Development: Redevelop the cashew and coconut industries.

SME Development: Some, but not formalized.

Discussion: FAO supports the Ministry of Agriculture with expatriate advisors, whose observations include the following:

The Ministry of Agriculture has minimal interest in the private sector; most of its focus is on the state farms. There is minimal focus on the peasants, but this is changing. AgMin is currently reassessing its priorities, but has a very small core of competent people.

AgMin is not obstructionist and does not have a "heavy hand" when it comes to donor programs in agriculture, if the projects strategy and objectives are perceived to be reasonable.

Government provided institutional support is minimal. The National Agricultural Research Center was blown up during the civil war. Nampula has a good research center for cotton, maize, and beans. The agricultural college at the university is acceptable but has a very high dropout rate, resulting in a small professional resource base and weak institutional capacity. There are about 700 extension workers in the country, 500 of them paid by donors.

Cashews and coconut development are of special interest to the Ministry of Agriculture. Cashew production (really gathering) is so casual that it would be difficult to organize a producers association unless prices were higher. There is a Cashew Secretariat under AgMin. Changing the mindset of cashew processors is one of the major challenges. To revitalizing the industry because the processors are primarily interested in large-scale, capital-intensive processing and in minimizing producer prices. Maybe a fee based on tonnage purchased by the processor is the best way generate development funds. Mozambique should be able to produce 80–90,000 metric tons of shelled nuts for the 450,000 metric tons world market. This would generate a lot of badly needed foreign exchange and help a broad base of the population if prices were improved. Indian traders use their village-level stores to control much of the production and then export it to India where it is hand-shelled for a high whole/half nut yield.

Coconut was almost exclusively a plantation crop and is now going toward outgrowers. The coconut products market is difficult to profile, but it is a less complex industry than cashews since there are only three significant participants, one of which is a parastatal (currently scheduled for privatization.

Shrimp aquaculture and adding value to sea catch both represent good apparent opportunities, and CDC is doing some work here. The Ministries of Agriculture and Fisheries were combined recently so shrimp production and processing may get additional emphasis.

Since AgMin objectives and strategies are in the process of being developed, FAO's M&E approach is informal and primarily involves FAO management discussions with senior AgMin officials as to how satisfied they are with the FAO advisors.

Impact: FAO's support to the AgMin should help it establish a new strategy and priorities. Now is an important time for the ministry to develop focused programs, help the largest portion of the population (farmers), and stimulate Mozambique's largest potential source of badly needed foreign exchange, agricultural exports.

Conclusions: Now is a good time for donors to determine where they have a comparative advantage to assist AgMin in its important work. It seems quite open to ideas and will cooperate with any well thought out program.

Cashew, coconut, and shrimp processing all seem to represent good agribusiness opportunities and areas where donor support would be welcome.

B-1.3 Instituto Nacional de Desenvolvimento de Industria Local (IDIL)

Sponsor: Mozambique Ministry of Commerce, SIDA, the World Bank, the International Labor Organization (ILO), UNIDO, and the African Development Bank

Project Value: $19.6 million

Start Date: 1988

Completion Date: Ongoing

Principal Objectives: Facilitate the formation and development of indigenous industrial microenterprises and SMEs.

Association Development: Minimal.

Financial Services: Supports micros and SMEs by helping them obtain financing.

SME Development: Main interest. Performs feasibility studies for, consults with, and identifies financing sources for micros and SMEs.

Discussion: IDIL facilitates the formation, organization, and financing of industrial (no trading or transport) microenterprises (up to 10 employees and $50,000 in annual sales) and SMEs (small = up to 50 employees and medium = up to 200 employees and $1 million in sales). Since its formation in 1988 (with World Bank help on the design), IDIL has received more than 600 proposals for assistance, most from the informal sector. Only 50 proposals were rejected, 550 were assessed by IDIL, and 100 were passed on to supporting donors or commercial banks for loan approval, later using WB-sourced funds. Assistance to micros and SMEs includes help for a feasibility study and assistance to source financing. IDIL does not provide any financing itself; this comes from donors or commercial banks. Some management and technical assistance is provided post-financing. ILO "Improve Your Business" programs are used to train SME managers. A few of the supported projects are in agribusiness. SIDA supported ($40,000) a tomato-processing project recently, but the entrepreneur lost interest.

In its early years donors had different selection criteria/rules and wanted the potential client presented in the donor's own unique format. A trust fund with agreed criteria/rules was therefore developed as a means to reduce this diversity of requirements. The Trust Fund (FFPI) was approved by the GoM in 1990, funded by SIDA at $3 million in 1993, is *focused on micros*, and offers a $50,000 maximum loan. Nineteen projects have been funded by FFPI, 60 percent of them in the maize milling business. Three of these projects are currently on FFPI's "watch list" (i.e., are problem loans).

FFPI debt is at commercial rates and usually involves 1–3 years grace and a 4–12 year payback period. But if the client pays most of their installments on time, IDIL/FFPI will forgive the last "few" payments.

Discontinuity in FFPI, caused by political change, resulted in minimal follow-up on funded projects, but following is beginning to take place. Most micro projects seem to be doing well. There is minimal follow-up on SMEs for whom IDIL did feasibility studies prior to financing, and IDIL would like to be able to do more follow-up work on such projects.

FFPI wants clients to put up at least 10–20 percent of the investment, but *most micro entrepreneurs have very little money* and IDIL is trying to get government guarantees for the 10 percent collateral. Entrepreneurs can use in-kind or "sweat equity" for their contribution.

The World Bank–sponsored Small and Medium Enterprise Fund program, which is administered through the commercial banks, uses IDIL to screen projects for *SME* finance. Some $25 million has been borrowed by SMEs using World Bank funding disbursed through the commercial banks, the vast majority through the two state-owned commercial banks. While some 40 percent of these loans are still in the grace period, only about 10 percent of those that have payments due are current. There is also a concern on the part of the World Bank about how the very substantial fees ($2–3 million) earned by IDIL on this business have been used.

IDIL has around 80 employees and an extensive province-based organization. Their objective is to have three technicians in each province to solicit and screen proposals and to train trainers in basic management skills development. They currently cooperate with UNIDO to train technicians in Nampulo Province. The Beria, Nampulo, and Maputo offices can now perform feasibility studies. The Zambezia and Tete provincial offices are under full development (i.e., staffing and training). One of IDIL's main objectives is to develop fully the capacity at the provincial level.

The provincial level does preliminary screening on a project and it is then passed to headquarters for final screening. If they approve, the project goes to the FFPI/SIDA for micro projects or to commercial banks for SME projects for their review and approval. Projects supported by the African development Bank can be approved at the provincial level.

IDIL gets a small amount of funding from the government and charges 3 percent of the financing fee to clients with 1 percent upon sign-up, 1 percent for the feasibility study, and 1 percent upon receiving the financing. For FFPI clients, fees are subtracted from the financing. Post-financing support incurs an additional fee.

IDIL is seeking an optimal strategy and modus operandi for their activities in support of both micros and SMEs. They would then present this to a group of donors and ask them to fund no more than two trusts (one for micros and one for SMEs) that have multiple donor support. Each trust would have its own loan criteria and follow-up system.

The M&E used by IDIL includes the number of proposals screened, number recommended for funding, amount of funding approved, the success of funded enterprises, and the continued support of donors.

Impact: While very few IDIL and FFPI quantitative measurements were available for review, the agency seems to be doing reasonably well as evidenced by its ability to (a) survive several different administrations with very different political philosophies and (b) continue to receive donor support. The amount of loans outstanding has increased about 17 percent per year recently. Several thousand entrepreneurs, including many women, have received business management training. However, the very low (2 percent) on-time payment record of SME loans disbursed through the state-owned commercial banks is a cause for concern.

Conclusions: IDIL has survived very difficult times in Mozambique and appears to be successfully stimulating micro and SME development. Pragmatic leadership and good donor relations are likely the most important reasons for its survival.

Loans granted through state-owned banks, even when commercially oriented entities perform the feasibility studies, are often not repaid due to borrower and bank management attitudes toward government-related debt, (i.e., that the loan does not need to be repaid). Without proper follow-up and management SME loans will suffer a low repayment ratio.

Indigenously managed micro development programs can succeed, even in very difficult environments, if they are properly managed and donor relations are carefully handled.

Funding can stimulate micro and SME formation, but TA and management assistance may be needed for them to be successful and repay their loans.

Equity/collateral limitations are the major initial constraint to both micro and SME formation in emerging private sectors. Sweat equity and in-kind contributions can help offset this constraint, but cannot overcome it. Government guarantees for initial entrepreneur equity may be a source of assistance, but this needs to be closely monitored.

IDIL's provincial network is an excellent model of how to combine local presence with good analytical skills and donor relations. Donor help in developing this provincial network would be a good use of funds.

Due to the specific skills required in agribusiness and the substantial need for agribusiness development in Mozambique, establishment of an agribusiness-focused division of IDIL should be investigated.

When the entity that helped do the feasibility study and business plan is not involved in plan implementation, the plan will become an academic exercise and the quality and pragmatism of future plans the entity will do suffers since nothing is learned about the success of their efforts.

B-1.4 World Bank Projects (WB)

Sponsor: World Bank

Project Value: SME development, $32 million; Agricultural Services, $35 million

Start Date: SME Development, July 1990; Agricultural Services, December 1992

Completion Date: SME Development, December 1996; Agricultural Services, June 2000

Principal Objectives: Stimulate development via a combination of financing and associated conditions precedent.

Association Development: Some, for cashew producer associations.

Financial Services: Main thrust, via state banks.

NTAE Development: Considerable interest, especially in cashews and coconuts.

SME Development: Considerable interest.

Discussion: Basic findings regarding World Bank activities include:

- Most of the agribusiness private sector was nationalized (often from Portuguese holding companies) during the political turmoil and is now being "privatized," which means being converted to shareholding companies, with the government holding nearly all the shares. Plans are being made to sell some portion of the shares in the companies to the private sector. Boral, the largest integrated coconut company, is now being privatized; Madal, the second largest company, will likely be the buyer. This would result in one of the largest integrated coconut companies in the world.

- There are five local banks, three are private, two of the three are branches of Portuguese banks), the other two are state-owned. The People's Development Bank (one of the state banks) was formerly the Agricultural Bank. Nearly all World Bank money for SME development loans is transferred through state banks, not the local commercial banks. The World Bank itself is constrained in its operations by having to use primarily state banks to disburse its funds rather than commercial banks. The on-time payment rate of loans using World Bank sourced funds that are past the grace period is less than 10 percent.

  The two state-owned banks, which have disbursed 90 percent of the World Bank's SME loans, are about to be privatized. Therefore, this SME development loan channel will likely no longer be available. However, two new financial institutions, UAL (see EDESA in Tanzania) leasing and Credit Coop, have recently been registered and may be interested in taking over this activity, although only if the default rate can be dramatically reduced. Private commercial banks do not use World Bank money for SME lending because (1) the bank must take the credit risk, (2) the bank prefers to make loans primarily to firms they know well, (3) they are aware of the SME default rate, and (4) they do not like the high transaction costs associated with smaller loans.

- According to the recent World Bank study "Impediments to Industrial Recovery," red tape and lack of trade finance are the two most serious constraints to private sector development in Mozambique. The World Bank is developing a program to address the trade finance constraint.
- The World Bank private enterprise development program has not been able to disburse some $27 million in financing for the private sector due to a combination of difficulties with their intermediaries (commercial banks) and limited application completion/business plan development and management skills in the private sector.
- The World Bank established a priority list for crop development in Tanzania and supports a varietal development program for cashews similar to GTZ's coconut program. The Bank has a special interest in cashew rehabilitation. The 500,000 cashew "producers" generate very low revenue per person for the cashews they gather. Cashew processors achieve a very low yield due to the age of their equipment and their inefficient operations. The portion of the export price going to the producer is nearly 70 percent in Tanzania but only around 20 percent in Mozambique (with 30 percent to the wholesaler and 50 percent to the processor). Some of this difference can be explained by the fact that cashews have been processed by a state-subsidized parastatal in Tanzania, but there are probably other reasons as well. The World Bank is pushing for a government-imposed tax on exports for a cashew industry development fund.
- The World Bank's Small and Medium Enterprise Fund (SMEF) will be used for cashew (and cotton) industry support, including extension services, adaptive research, and support for producer associations. Credit for inputs and marketing will also be included. The sponsors bank has a similar SME project in the Côte d'Ivoire; it is not focused on agribusiness/agriculture, but does involve small-to-large business linkages.
- The SMEF design includes "technical assistance and training, including the establishment and operation of *an apex management unit at the Bank of Mozambique*, upgrading of commercial bank accounting practices, *establishment of a business advisory service* (at IDIL), an industrial policy study and training of loan appraisal staff." Progress on the apex management unit and the business advisory service at IDIL seems to be minimal, but this needs further investigation.

Impact: Assessing the overall impact of World Bank projects would require a major study. The World Bank indicates that it faces significant constraints in banking and private sector capacity, which limit its ability to disburse its funds and thereby stimulate private sector development.

Conclusions: The World Bank has a serious interest in Mozambique and has allocated considerable funds to projects relevant to private sector, agriculture, and agribusiness development.

However, it is constrained in its ability to disburse these funds and implement its projects by (a) the limited institutional capacity of the intermediaries it must work with and (b) the limited ability of potential beneficiaries to apply for financing, develop viable business plans, and manage SME enterprises.

New financial intermediaries will likely have to be developed if the World Bank's SME support program is to continue.

Lack of trade finance is a very common private sector development constraint in economies emerging from socialist systems.

Why Tanzanian cashew producers receive a much higher portion of the export value per kilogram than do producers in Mozambique needs investigation.

B-1.5 World Vision Mozambique (WVM)

Sponsor: Private and government donors

Project Value: $80 million in total, $30 million in kind; Agricultural Recovery Program (ARP), $15.3 million

Start Date: N/A

Completion Date: Ongoing

Principal Objectives: Stimulate and support the transition from emergency relief to sustainable development by increasing production, reducing postharvest losses, and enhancing producer collective marketing and bargaining. Help the 5 million people who have recently returned to their homelands and the 1 million who have yet to be resettled establish themselves. Major focus is on production technology enhancement and transfer.

Association Development: Some, as related to growers associations for collective marketing and bargaining. Particular interest in community development.

Financial Services: Minimal; they are developing a revolving credit fund for SME agribusinesses.

NTAE Development: Some recent interest in coconut.

SME Development: Some very recent interest.

Discussion: Most of WVM's programs are focused on Tete, Nampula, Zambezia, Manica, and Sofala Provinces, with some of the ARP activity in Cabo Delgado Province. There are 12 expatriates and 85 nationals working on the ARP.

Findings from WVM *agricultural and agribusiness* programs (ARP) are:

- The ARP has a small-scale farm family enhancement focus and features its own applied research and extension service and has six different components.

    1) Its resettlement component will distribute some 315,000 Ag-Paks of hand tools and grain seeds and 200,000 Veg-Paks of vegetable seeds to some 315,000 recently resettled farm families. These Paks will be exchanged for locally produced grain to reduce farm families dependence on free distribution.

    2) The Rehabilitation and Sustainable development component will, with a high degree of farm family and GoM institution participation, select, improve, multiply, and distribute crop varieties with the potential for raising yields under low-input systems.

    3) The Farm Family First component will use local Contract Farmers to informally demonstrate and disseminate sustainable farming systems based on modern, effective practices and improved inputs. It will also use these community leaders to promote diversification into proven cash crops and to increase participation by women and the local community in investigation, training, and extension activities.

    4) The Animal Restocking component will use Provincial Departments of Agriculture (DPAs) to promote postwar restocking of livestock by distributing (in exchange for cash or an equivalent number of weaned calves) breeding stock for use in food production and animal traction.

    5) Linkages between producers and markets will be developed by the Agricultural Marketing and Farmer Associations component. Grower associations will be formed (and differentiated from the previous government-controlled cooperatives), training will be provided in agricultural marketing, a revolving credit fund will be established for SME agribusinesses, information will be disseminated on marketing opportunities, information will be provided on transport availabilities between producers and markets, support will be provided to increase the bargaining power of small-scale producers, and improved availability of basic inputs at real costs will be promoted.

    In the Institutional Support and Infrastructure Rehabilitation component, facilities of the DPAs and the National Institute for Agronomic Investigation (INSA) Field Station at Sussundenga will be rehabilitated and returned to operation to support applied research and extension in their respective areas.

- WVM would like to turn their established applied research and extension services over to the GoM or the private sector.

- WVM has some interest in coconut development, but most in varietal improvement.

WVM's M&E systems are based on a review of annual accomplishments versus established objectives.

Impact: WVM's ARP efforts appear to be well integrated and coordinated, and have made a substantial contribution to agricultural development, especially in Tete, Nampula, and Zambezia Provinces. Farmers are using improved varieties and there is a developing infrastructure of applied agricultural research and extension in place. Hundreds have been trained and gained experience in applied research and extension techniques and understand that extension involves two-way communication between research scientists and growers.

Conclusions: WVM's ARP program has succeeded in stimulating improved production and is beginning to develop community-level self-direction.

WVM's programs in rural SME development, agricultural marketing, and credit are in their early stages and may need considerable outside assistance to establish, given WVM's traditional focus on technical and production agriculture.

The apparent success of a donor agency focused on production agriculture does not mean that it will be able to successfully evolve into postharvest development, especially without considerable outside assistance. WVM needs to understand better the demand side of the Mozambican agribusiness economy if it is to develop highly relevant programs in postharvest agriculture.

WVM represents a high-potential partner for USAID to cooperate with in postharvest development. WVM has a good network in agriculture-based provinces, a detailed understanding of *production* agriculture, and credibility beneficiaries and the GoM. USAID has significant experience in agribusiness development and WVM is interested in moving forward in food chain enhancement.

Donor programs based on a well-established capability have good prospects for success. Conversely, new development areas should be approached with considerable care, and in cooperation with donors who have experience and competence in that area.

B-2 FINDINGS ON ASSOCIATION

There are few agriculture, and no agribusiness, associations in Mozambique. Recent emergence from socialism and a civil war does not lend itself to the formation of associations, especially considering the way cooperatives were manipulated by former governments. Therefore only one association is profiled in this section.

B-2.1 Associacao dos Produtores Agrarios de Mocambique (Agrarius)

Sponsor: Members

Project Value: Unknown

Start Date: 1993

Completion Date: Ongoing

Principal Objectives: Enhance the livelihood of its (producer) members.

Association Development: Further develop and sustain itself as a full service association to its members.

Financial Services: Very interested, but none available.

NTAE Development: Interested in fruit exports to the RSA.

SME Development: Interested, but have not thought beyond organizing the association and production-related issues.

Discussion: Agrarius has 180 farmer members nationally, 150 located south of Maputo. They produce beans, maize, cotton, vegetables, and fruit (mostly tangerines and oranges). Members farm an average of around 20 hectares, but some up to 50 hectares.

Major interests are small farm development, finding sources of credit for inputs, and developing additional sources of revenue. One of their major concerns is "assisted credit" at the district level. They need financing, but they also need local managerial and technical assistance to determine how to most effectively use the credit and be able to pay it back.

They are very interested in an extension service and believe there should be at least one agent per district.

Title to land is a major issue/problem as related to securing credit and loans. Without a clear title, which is very difficult to obtain, banks are hesitant to extend any significant amount of credit, or consider even intermediate-term (more than one year) loans. In tree crop production, this lack of intermediate-term credit is an especially serious problem.

There is a Fruit Producers Association under Agrarius that plans to offer members a training course in fruit production, a nursery for seedling development, and credit for inputs. This is supported by the larger citrus farmers, but currently fruit is in excess supply and prices are low. Fruit Producers Association members sell fruit on the local market and then to the RSA, but RSA farmers produce the same crops and are protected. However, the RSA government wants to offset some of the very large positive balance of payments the RSA has with Mozambique, and therefore opportunities for fruit sales may develop.

The association would like to develop an outgrower relationship with a fruit packer and marketer similar to the relationship between JFS Cotton Company and its cotton growers. However, there are currently no fruit packers in this business.

Impact: Agrarius has expended most of its effort to date developing a set of bylaws and a constitution. It is now ready to move ahead, but with just membership support, especially given the current state of the fruit business, its progress will be slow. Its impact on members to date has likely been minimal because most of time and money has been focused on getting itself organized.

Conclusions: Agrarius appears to have formed by itself with little outside support or assistance, a very significant accomplishment given the history of cooperatives. This indicates a strong grassroots-level interest in mutual assistance on the part of members.

The south of Mozambique has a serious food deficit, and production and marketing enterprises in this area need to be encouraged.

Producer associations can develop in difficult economic and political environments. However, their ability to provide members with the needed production, and especially postharvest, services will likely be dependent on outside support.

Access to RSA fruit markets will require some government-to-government involvement, because the motivation for the RSA to import Mozambican fruit is not a commercial motivation.

Agrarius has apparently not stimulated any negative reaction on the part of the GoM. Given the GoM's many other problems, significant help for Agrarius from the GoM seems unlikely.

Agrarius must achieve a detailed understanding of members' priority needs and develop highly efficient programs to serve the highest priority needs. Because of its limited resources, it will have to focus on a few, high positive impact member services.

Agrarius represents an excellent opportunity for donor support. It is grassroots-based, is located in an area that needs considerable agricultural/agribusiness development, and needs help to break into the RSA market. It also needs considerable support in postharvest areas, especially for fruit, since there is no commercial entity currently available to collect, grade/sort, package, and market their output.

Caution should be exercised as related to the interests of the fruit growers over the interests of other members. The fruit growers are larger and have more specialized interests, so fully integrating them into the larger association and keeping them there will require careful management.

B-3 FINDINGS ON PRIVATE AGRIBUSINESS FIRMS

Following are the findings on agribusiness firms in Mozambique.

B-3.1 Companhia da Zambezia (CdZ)

Principal Objectives: Rehabilitate Mozambique's tea and coconut plantations, bring them back into production, and market the output in value-added forms, involving neighboring smallholders to the extent practical.

Discussion: CdZ was founded in 1892 and has been a private company ever since, even during the socialist period. It owns 77,000 hectare of plantations, mostly in Zambezia Province. The company is 77 percent owned by Portuguese shareholders. For the last 15 years CdZ has been able to access only about 6,000–7,000 hectares of its property due to the civil war and the related loss of infrastructure.

CdZ is the only tea company in Mozambique. Prior to the war it exported more than $30 million worth of tea from the Gurve area, focusing on premium quality, not volume. Today the infrastructure in the area is so poor that exports are impossible. If usable roads were available into/out of the area, CdZ would redevelop the tea plantation.

The coconut plantations need major culling and replanting. Under normal circumstances CdZ would cut 850 older and damaged trees per day, but due to years of neglect, it must cut 1,350 trees per day in order to bring the plantation up to standard in several years. The culled trees can be used to make pallet wood and the company has found a machine that will cut the trees into pallet kits for assembly at destination. There is a good market in the RSA for these kits, so CdZ is very interested in developing the business, both for a source of exports/revenue and as a means to begin rehabilitating the coconut plantations.

Coconut-based products CdZ wants to produce include:

- Fresh and processed coconut water, milk, and cream for the RSA market
- Virgin coconut oil, which is worth 2–3 times as much as normal coconut oil and is very low in free fatty acids; however, the market for this specialty product needs to be investigated
- Activated charcoal made from the shell, which would require only modest technology and capital

CdZ management's objective is to find products and markets that offer a better return than commodity copra.

The seasonality of Mozambican production is different from that of the Philippines and other Asian suppliers to the market, and therefore the company believes it can effectively compete, especially on fresh items. Also, they are primarily interested in specialty, not commodity, markets and products.

CdZ is seeking financing for the rehabilitation work that is needed on its tea and coconut plantations. Also, new variety development/adaptation and application work is needed.

There are numerous opportunities for SME participation in CdZ's rehabilitation and ongoing operations: (1) SMEs could be formed to cut and sell culled trees to the pallet kit making company; (2) smallholders in areas surrounding CdZ plantations own more trees than does CdZ; traditionally, smallholder production per tree and per hectares was greater than on the plantations; CdZ would be glad to buy coconuts from smallholders once it is back in operation; (3) if an acceptable plan could be developed, CdZ would be willing to turn its 77,000 ha. over to smallholders to develop and put into production; CdZ would supply the inputs and the TA and the smallholders would supply labor and sell the output to CdZ.

Impact: While CdZ is just preparing to rehabilitate its tea and coconut plantations, the potential impact of its efforts on Mozambican exports and employment would be substantial if they are successful. Earning millions in exports and creating hundreds of jobs is entirely possible.

Conclusions: CdZ's potential pallet kit business appears to be a win-win opportunity. SMEs can be formed to cut and deliver trees/logs to the pallet kit making company. The plantation will get rehabilitated, cash flow will be generated for replanting, and Mozambique will have a significant new source of foreign exchange. This project seems to deserve special analysis by donors to determine how SMEs could be formed, financed, and supported to form coconut tree culling businesses. This is both a short-term and long-term opportunity.

The alternatives for rehabilitating CdZ's coconut plantations, with significant smallholder participation, should be investigated and if found feasible, fully supported. It needs to be determined how small portions of the plantations would be "turned over" to smallholders, how the TA necessary for replanting and managing new varieties and production methods would be transferred, how CdZ could be financed to provide the smallholders with needed inputs such as seedlings, fertilizer, crop protection chemicals, and so forth.

In situations of emerging democracies and free market systems, unique opportunities for cooperation between the private sector and donors may emerge, often with considerable mutually beneficial characteristics.

Private agribusinesses can be used to identify high-yield business and geographic opportunities, and can often be effective partners in developing these opportunities.

B-3.2 Interposto

Principal Objectives: Redevelop its very substantial operations in Mozambique to achieve an acceptable return on shareholders' investments.

Discussion: Unlike many African countries Mozambique has reasonable quality agricultural land and rainfall is both reliable and adequate in most parts of the country (the south being the exception). Thus, the northern parts of the country can become self-sufficient in food, even if only at the subsistence level. The south receives most of its food as imports from RSA paid for by remittances from Mozambican mine workers in the RSA. Given its cashew production history, agricultural capacity, and low labor costs, Interposto believes the cashew business can be revived.

At one time Mozambique was one of the world's largest exporters of cashews, but now exports some 180,000 metric tons less than its *historical level* of production. Returning to something near historical production levels is a major opportunity and challenge for Mozambique, especially because most cashew production is in the hands of very small producer/gatherers, and both the trees and the processing machinery is old. To regain its world market (90 percent of which is the United States) share, Mozambique will likely have to move toward larger tended plots (versus the current almost wild production) to improve production efficiency. The business is neither capital nor technology intensive.

Interposto is a large Portuguese-controlled agribusiness company, with 17 divisions in Mozambique. Most of the research on Interposto was related to the cashew business. The company processed 210,000 metric tons of cashews in 1992 when there was ample supply available. Now, due to the cyclone, canker disease in the trees, and the unavailability of producer/gatherer labor caused by the civil war, production is less than 21,000 metric tons per year.

Interposto currently operates three cashew processing factories, one previously owned and two recently acquired. All cashews are sourced from wholesalers. Interposto has 1,000 hectares of its own production, but it is too young to yield significant quantities. Wholesalers (usually Indians) sell some of the product they market to processors, but also export to India. Because the cashews sent to India are hand shelled, they likely constitute the larger sizes. It is believed that India subsidizes its cashew industry to use Indian labor and to generate foreign exchange from the value-added (shelled and sorted) exports. Indian processors make extensive use of subcontractors (often families with children) and therefore have minimal overhead and low unit labor costs. Interposto tried manual shelling, but was unsuccessful because (1) Mozambicans apparently do not want to hand-shell cashews and (2) getting the shelled nuts returned is a challenge.

The trader who collects the cashews from gatherers makes about 30 percent of the margin between the producer and the processor, and the wholesaler makes *nearly 70 percent*. Therefore, Interposto believes there is ample opportunity for its own production, both to eliminate the trader and wholesaler margin and gain access to the larger sizes. Breaking into the trader/wholesaler business would be difficult for Interposto because the Indian traders supply producer/gatherers with their ongoing family needs in exchange for their production. Thus, gaining access to the supply would require an extensive network of trading posts/community stores in the production areas. Indians make up the majority of traders and wholesalers, and already have good control of the family supplies and village retail store business, and excellent sources of financing. Wholesalers use their contacts in India as export customers for the larger sizes, which bring the best prices.

The average cashew grower produces/gathers about 250 kg of cashews per year worth about M50,000/kg (US $6), or M12,500,000/year (US $1,500) in income. Growers are widely dispersed geographically, and usually live some 20–25 kilometers from their trees, so collection and maintenance is difficult, especially during times of civil unrest/insecurity. The average cashew tree in Mozambique is quite old and the quantity and quality of production is diminishing. With the exception of Interposto's new plant, most cashew processing equipment in Mozambique is also old and in disrepair. This means that considerable investment will be required to rehabilitate the industry.

Given the above, Interposto is pursuing intensive controlled production in a limited geographic area. To accomplish this, it has imported large quantities of several varieties of dwarf Brazilian trees, which are anticipated to have twice the yield of local varieties per hectare (primarily due to higher plantieties also will be resistant to the canker disease that is now affecting many cashew trees in Mozambique. The Brazilian varieties also are much less susceptible to cyclone damage due to their smaller/shorter size.

Other observations based on conversations with Interposto include:

- If intensive production using Brazilian dwarf varieties succeeds, market prices may eventually be driven down. However, the cost of the cashew nut represents only about 20 percent of Interposto's sales price.
- For Mozambican marketers to be successful in the international market, they must improve their understanding of the market. Current processors have a very commodity-based orientation.
- A producer and processor integrated association or marketing board, possibly funded by a cess on exports, could help resolve the issue of supply upgrading and reliability and would be very useful for coordinating the industry, performing applied R&D (e.g., varietal adaptation, selection and multiplication, and cashew fruit utilization), providing extension services to producers, developing value-added products, and in general helping the industry recover its once major share of the international cashew market. Donors could play a significant role in developing and assisting in the ongoing management of this association/marketing board, including making sure there is a balanced relationship between producers and processors.

Interposto is working with USAID to multiply and distribute the traditional varieties of cashew trees to smallholders as a means to upgrade the existing stock of trees.

Impact: The impact of Interposto on the Mozambican cashew industry has yet to be felt. However, if the Brazilian varieties grow and have good yields, and if Interposto is successful with its backward integration efforts, there will be a significant impact on Mozambique's cashew industry and cashew exports.

Conclusions: Interposto represents a potential cooperator with whom to investigate the formation of a Cashew Industry development Association or a Cashew Marketing Board. However, its commitment to integrated operations, the *diversity of its businesses* (17 different divisions), and the extent to which it is part of the old "colonial school" may limit its interest in this approach.

Rehabilitation of large agriculture based export industries will likely be very costly and require joint and well-coordinated efforts by donors, the government, private sector participants, and producers. This rehabilitation also could provide a way, particularly in the existing post-revolutionary setting where landholding by big companies *can be a political problem*, to create outgrowing and contractual relationships between the large processor and the small growers. The advantages of such relationships are that they are politically popular, and take the direct funding off of the processor, and they secure loyalty of rural populations.

Large agribusiness firms may find it easier to establish their own production operations when technological advances enable intensive/commercial agriculture.

B-3.3 Companhia Agro-Industrial Lonrho Mocambique (Lomaco)

Principal Objectives: Develop and grow the business at an acceptable return to shareholders.

Discussion: Lomaco, which began operations in Mozambique in 1986, is 50 percent owned by Lonrho of the United Kingdom and 50 percent owned by an entity of the Ministry of Agriculture. It employs 5,000 people full-time and 20,000 part-time. Lomaco's main businesses are tomato paste, citrus, and cotton.

Its cotton growing and ginning operations are based on its own intensive production plus that of 25,000 outgrowers, and it wants to expand to 45,000–50,000 outgrowers in the near future. Lomaco owns three gins with a combined capacity of 20,000 metric tons per year, but now gins only 6,000 metric tons per year. The Beira gin was turned over to Interposto, and in exchange Interposto gins Lomaco's cotton. Lomaco management understands how to successfully manage smallholder cotton production arrangements.

They are very interested in oil extraction from cotton seed, but the recent drought has slowed progress on this project.

The tomato paste plant in Gaza Chinin Ben cannot operate due to a shortage of water in the Limpopo River growing area. The RSA has captured much of the water, a Mozambican dam on the Limpopo is seeping badly, and rainfall has been poor. Lomaco is working on a project to extract water from river sand using a honeycomb system, but this will cost $1 million to gather enough water to irrigate 600–650 hectares of intensive production (3.5 metric ton/hectares). If smallholders in the area also supplied tomatoes needed for the paste plant (2,000 metric ton/year of 30 brix), some 1,500 hectares of land would be needed, requiring a water supply development fixed cost investment of $1.2 million. Also, the water would have to be moved farther from the river to supply contract producers.

Lomaco is interested in organizing some form of joint effort with small growers to build the needed irrigation system, so that all the money would not have to be raised by Lomaco. Further, they are willing to formalize outgrowing relationships with some help (e.g., from donors) to facilitate small holder participation.

When water was available, Lomaco had a reasonably reliable supply of tomatoes from local producers. However, given the poor condition of the infrastructure in Mozambique, it is difficult for smallholders production conditions are very unreliable and there are few alternative markets available to growers for their crop. The infrastructure inadequacies also affects internal operations.

For example, packaging materials (cans, etc.) must be imported and the lead time is very long. When conditions change (e.g., the recent loss of water supply), the cans will not be used. Therefore significant nonrecoverable costs were incurred. The same principle makes it difficult for Lomaco to commit to outgrowers to buy *all* of their production.

For its citrus growing operations, Lomaco markets to the EU through the Citrus Organization of South Africa, which also does their grading, sorting, and packing.

Niasa Province has considerable agricultural potential, especially for potatoes, grapes, and watermelon.

The company multiplies seed for SEMOK and is working with USAID on the cashew tree multiplication and distribution project.

Lomaco believes the major constraints to agribusiness development in Mozambique are (1) the low level of literacy; it is very difficult to find even marginally qualified plant workers and most laborers cannot read; (2) poor infrastructure, especially roads; Lomaco must repair and maintain the roads in areas where they work; and (3) an extensive bureaucracy to deal with and excessive red tape (even when the company is 50 percent government owned).

Impact: Lomaco's cotton project is doing reasonably well and using many outgrowers. Its citrus business has found a way to market through the RSA, but its tomato business is suffering from a water supply problem that can be resolved only with considerable capital investment.

However, Lomaco's impact on agribusiness in Mozambique has been and will likely continue to be substantial. It has a commitment to the country and has quality management in place to identify and develop agribusiness opportunities.

Conclusions: Because Lomaco has considerable experience cotton and is willing to work with outgrowers on tomatoes, it represents a good potential partner for donors to finance and develop outgrower and marketing schemes for tomatoes and possibly even citrus.

Innovative, large agribusiness companies represent a good way for donors to leverage their agribusiness and infrastructure development efforts in rapidly developing countries, especially when the agribusiness firm is ready and willing to cooperate on projects of mutual benefit and interest.

The long lead time needed to import supplies significantly increases the risk for agribusinesses in underdeveloped countries.

Low literacy significantly increases training costs and makes it much more difficult to operate and maintain food processing/agribusiness facilities.

Appendix C

Detailed Profiles - Tanzania

The assessments that follow include summarized Objectives, Discussion, and Impact sections, and the Conclusions reached from that case study.

C-1 FINDINGS ON SUPPORTED PROJECTS

Following are the basic findings on agricultural and agribusiness-related donor-supported projects in Tanzania.

C-1.1 Appropriate Technology International (ATI)

The old project was called the Village Oil Press Project (VOPP) and the new project Tanzania Project for Rural Enterprise Support Services (T-PRESS)

Sponsor: T-PRESS, National Income Generation Program (NIGP), and the Tanzania Swiss Trust Fund

Project Value: T-PRESS, NA

Start Date: VOPP, 1990; T-PRESS, 1995

Completion Date: VOPP, 1995; T-PRESS, 2000

Principal Objectives: ATI's objectives are to develop and strengthen the private sector in rural areas by helping small producers capture the value-added from processing oilseeds into cooking oil. VOPP's objectives are to establish sustainable oilseed supply, pressing, and retailing businesses in Tanzania based on small manual presses. T-PRESS's objectives are to sustain and expand, on a commercial basis, the businesses and oilseed-growing established by VOPP.

Financial Services: Minimal.

SME Development: Develop and sustain rural oil press micro businesses and stimulate the planting of the oilseeds needed by the presses.

Discussion: The ATI hand-operated oilseed press was invented in Arusha in 1985, and was redesigned in 1991 by CAMARTEC (Center for Agricultural Mechanization and Rural Technologies) so that it could be operated by women and could press a broader range of oilseeds and nuts. The press sells for between $100 and $115.

VOPP focused primarily on supplying extension agents to assist farmers to produce oilseeds and assist firms to manufacture the presses; staff members also sold most of the presses. T-PRESS will have two teams, one for extension and one to sell presses and improved sunflower planting seed *on a commercial basis.*

T-PRESS will train more manufacturers to produce the press, train rural artisans in press maintenance, identify and train sales and service agents, introduce the presses and oilseed growing to new geographic areas, create linkages between press manufacturers and potential press buyers, improve the press design, and train and consult with other development agencies to extend use of the oil press to new areas.

It takes about two years in any particular a geographic area for farmers to produce enough improved sunflower seeds and for operators to press enough oil to serve the vegetable oil needs of the population.

VOPP's success was significantly enhanced by its partnership with two local organizations — CAMARTEC and SIDO (Small Industry development Organization).

Seed processing and oil production rates are given above.

The Tanzania project has been extended to other parts of Africa by the Africa Regional OILS Program.

Other NTAE opportunities that ATI management believes have particularly good potential include:

- Production of bags from sisal grown on planta-

Product	Production Rate (kg/hr)	Oil Production (liters)
Sunflower seed	6	1.5–2.0
Sesame seed	4	1.5–1.8
Groundnuts	3	1.0–1.25
Coconut	2	1.3

tions, which were once very prevalent in the Arusha area

- Revitalization of the pyrethrum factory in the Arusha area, based on flowers produced by local smallholders (the Ronco project in Uganda could be a useful model)
- Essential and specialty oils produced from plants growing in the Arusha/Moshi area
- Papaya production for the processing of papain

M&E for T-PRESS will be based on the number of machines and improved planting seed sold, the amount of oil produced by the press owners, the sustainability of press micros, and the sales division's progress toward sustainability.

Impact: VOPP has successfully stimulated the development of nearly 1,500 microenterprises. The program is moving toward independent sustainability with T-PRESS.

In 1994 VOPP sold 361 presses (expects to sell 400 in 1995), one-quarter of its nine-year total of nearly 1,500. Around 35 percent of the presses were sold to women, either directly or indirectly through associations, women's groups, or by men buying on women's behalf. In the last quarter of the project, 20 percent of sales were made by manufacturers or private sales agents, not project staff.

Press owners often use their vegetable oil income to launch new agribusinesses.

Conclusions: For press buyers to be successful they need considerable training and assistance in press use and maintenance, seed sourcing, oil marketing, and other aspects of managing a profitable operation. Micro enterprises, especially, need ongoing assistance to properly manage the many aspects of their business.

Micro development projects *can* move toward self-sustainability. T-PRESS should be closely monitored to determine which parts of its sales organization are becoming self-sustaining and which parts continue to require subsidization.

C-1.2 Africa Project Development Facility (APDF)

Sponsor: IFC

Project Value: NA

Start Date: NA

Completion Date: Ongoing

Principal Objectives: Perform feasibility studies for large private sector projects and help them source the needed financing.

Financial Services: Major area of interest including both debt and equity. IFC is sometimes a source for both.

NTAE Development: No direct interest, but may assist NTAE projects.

SME Development: Primary interest is in projects needing more than $250,000 in new financing.

Discussion: The main constraint to private sector development is difficulty obtaining financing. It is the *burdensome* process that is the problem, moreso than the unavailability of funds. The second most important constraint is the lack of a "big picture" view of the business, especially the market and the competition, by the entrepreneur or their strategist.

The primary focus, and therefore the measurement of success, of private sector development projects must be *commercial* benefits (i.e., profits and return on investment). A highly commercial entity is the only viable source for development finance (e.g., the TVCF). Strong fund managers are needed to make sure the investments perform. *Existing*, well-managed entities with a good track record should be used for new private sector development programs. A strong fund manager with significant Africa and commercial agribusiness experience would be required.

There are good business opportunities in Tanzania, although developing a new venture is a slow process. There is considerable corruption, but competition is not as intense as elsewhere.

A regional fund (debt and equity) would enable better leveraging of expensive staff.

Privatization projects offer the opportunity to invest in operations of a reasonable scale. The key to success is the quality of management that exists, can be developed, or can be recruited.

In Tanzania it is important to be effective and to be perceived by decision makers as effective. Proof of effectiveness is very important for credibility.

M&E for private sector development projects must be predominantly focused on commercial measurements, for both the development entity and its clients.

Impact: Time did not allow an analysis of APDF's impact in Tanzania. However, the management of APDF in Tanzania has an excellent reputation.

Conclusions: For optimal effectiveness and efficiency as well as the most rapid progress, *existing*, well-managed entities with a good track record should be used, when available, for new private sector development programs.

A separate development fund may be required for agribusinesses as its payback period will likely be longer than for other businesses.

For projects where SMEs are to be the beneficiaries, financing will likely have to be preferential rate money and fund management costs will likely have to be subsidized, since serious "hands-on" management support of the investments will be needed.

Given the high cost of high-quality fund managers, a regional fund (debt and equity) would enable better leveraging of management.

C-1.3 The Business Center (TBC)

Sponsor: USAID

Project Value: $5 million

Start Date: July 1994

Completion Date: June 1999

Principal Objectives:

Association Development: Some support for association management development.

Financial Services: None in existing program. Clients will have access to a new $1 million loan fund (RMPS) administered by the First Adili Bank and sourced from the Social Action Trust.

SME Development: Develop the capacity of local consultants to assist SME entrepreneurs and train SME managers.

Discussion: The Business Center is one component of the FED project, which also includes the Social Action Trust and the Risk Management and Project Sharing (RMPS) Fund. TBC's main services are business management training and local consultant development. It offers SMEs services in business advice (market research, market access, procurement support, venture development, operations support, and investment and export opportunity profiles); training and organization development (business management workshops, customized training courses, trainer training, strategic planning for membership organizations, and short-term technical support); and an information and publications central reference point (sector reports, business and financial news, and business training materials).

Management skills and business know-how are the main constraints to SME success in Tanzania; financing is in short supply and expensive, but is not the main constraint. Most entrepreneurs have a minimal understanding of basic business concepts.

For clients to qualify for direct consulting, they must have been operating for at least two years and be registered (formal sector) businesses. Clients are charged $100/day by TBC for consulting services, but that can be reduced to $50 for smaller companies. TBC currently has more than 50 clients; nearly all are SMEs, not micros. One of the major challenges is “graduating” clients out of the program.

The consulting capacity-building program involves training consultants to screen client proposals, help them source financing, then provide follow-up assistance after the financing is received. Consultants that complete the training and can prove they have the needed skills will be certified by TBC. Some of the details of this program are still being finalized.

Most local consultants (usually trained as accountants) know how to prepare a feasibility study and/or (academic) business plan to help their client obtain financing, but have little or no experience managing a business. TBC’s consultant training focuses on teaching consultants to gain an understanding of the market (i.e., do market research and analyze competition) as well as to improve ongoing operating efficiency and effectiveness. TBC’s philosophy is to have its consultants help their clients manage their ongoing businesses and the associated risks, and the consultant will benefit from the results if their clients are successful. Consultant training will be the major emphasis of TBC because it enables the project to leverage its resources effectively. TBC’s training programs are 67 percent self-financed. The prevailing low level of education in Tanzania is a constraint to training programs. Association management training is partially paid for by the participants. TBC helped TANEXA create an Association Development Plan and helped them conduct strategy development sessions after formation. TBC would like to subcontract some of the training work to PVOs/ NGOs.

Due to the long-time socialist orientation in Tanzania. TBC is conducting a radio program that explains what a private business is and the principles of managing a small business. They are also training business reporters so that they can identify and write stories for the press that will help increase the population’s basic understanding of private sector business. A project like COMET in Zambia, where a private company established an SME development and training center, would help improve people’s attitude toward the private sector.

The new $1 million SME trust fund, RMPS, organized under the Social Action Trust (SAT), will be administered by the First Adili Bank (see section 6.4.1). It will be based on income notes for which the payback varies based on the borrowers’ operating success. TBC will refer clients (either directly or through consultants) to 1st Adili for financing and will help them complete application procedures and followup on loan utilization and payback. There is concern that a spread for both 1st Adili and the SAT will raise the cost of financing to near that of the very high (35–42 percent) commercial rates.

TBC would like to target high-opportunity subsectors such as high-value horticultural products (especially to Middle East markets), agroprocessing, and the gem and packaging products businesses. Under the current structure, however, it only serves those who request help. Subsector development work has been limited to a broadly focused horticultural seminar, work with TANEXCO, and some follow-up work with TANEXCO members, and TBC would like to develop better outside consulting capacity in the horticultural area. As in other subsectors, the technical issues these businesses face can be resolved if the marketing information and capability is there or can be developed.

TBC will expand operations by adding more clients and opening a new office in Mwanza, the second largest city in Tanzania, located on Lake Victoria.

The Tanzanian trading (retail/wholesale) economy is 80 percent controlled by Asians (Indians), who have access to capital, supplies, and outlets. This community is currently doing very well, especially because formal financial markets are in disarray. TBC considered developing a program of mentoring client SMEs with established businesses, but there was concern over Tanzanian entrepreneurs accepting a mentoring relationship with Indian companies/managers.

TBC's effectiveness and efficiency could be enhanced in the following ways:

- Do not accept micro or start-up clients (there is some concern by TBC management about being encouraged in this direction by USAID).
- Enable qualified client access to a multidonor-financed and TBC-managed trust for use as debt and/or equity. TBC-trained outside consultants would help clients apply for and manage the use of the money.
- Add an expatriate consultant to focus on developing local consultants' skills in ongoing operations and to *identify and develop* clients *in specific high-opportunity subsectors*.
- Establish a regional information exchange on business development ideas, lessons learned, and the implications for enhancement of existing programs or programs being designed.
- Develop a small-to-large business linkage/support program such as K-MAP in Kenya or COMET in Zambia.

M&E for this type of project includes the number of managers trained, number of consultants trained and certified, the extent to which training and consulting fees cover actual costs, the success of clients' businesses or associations, increase in the number of clients' employees, and the amount of financing sourced for clients.

Impact: Although TBC has been operational for only about one year, it has trained 40 trainers, 15 of whom have been certified, and nearly 500 managers. A very reasonable portion of training costs are being recovered. Project management seems to have a good grasp of its opportunities and challenges, and is reacting to them in an effective manner.

Conclusions: Organizations such as APDF, which work with *large* borrowers, can afford to do more complete feasibility studies, have less difficulty sourcing funds, and incur lower transaction costs as a percentage of financing value.

Projects that effectively support clients, especially SMEs, at a reasonable cost may have difficulty "graduating" these clients, because, as the clients' businesses expand so will their business services needs. Turning these clients over to qualified local consultants will enable the project to expand its reach. However, the more developed the client, especially if they are exporting, the more sophisticated their consulting needs. Therefore, local consultant training will likely need to be an ongoing component of a private sector development project. Furthermore, expatriate consultants may be required to meet certain consulting needs.

Lack of business management skills is usually one of the greatest constraints to economic development in underdeveloped private sectors, especially those emerging from socialism. Local consultants in these environments are unaccustomed to providing pragmatic business services, especially regarding ongoing operations, because few people have private sector management experience. A donor can effectively leverage its resources in these circumstances by focusing on developing local business consulting capacity.

In societies emerging from socialism with very undeveloped private sectors, training business reporters may be a good way to increase the general population's knowledge and understanding of market-led, private sector–based business.

In environments with few models of successful private sector enterprises, a program that links new entrants to the few successful current participants will increase the rate of private sector development by creating more models and mentors. This would include subcontractor and other very localized SME development activities sponsored by successful large private sector firms.

A prevailing low level of education makes successful business management training much more difficult.

When an agribusiness project is mature enough for management to understand which subsectors have the best potential to support their objectives, they should have the flexibility to target some of their resources on those sectors.

A formal and ongoing SSA-wide information exchange should be established on private sector and/or agribusiness development lessons learned and the implications for USAID project and activity design and development.

In underdeveloped private sectors dominated by informal firms, an agribusiness development project may need to seek potential clients by effective networking versus waiting for them to "walk in."

Multidonor funding may enable more appropriate staffing levels for complex and multiservice projects; otherwise, these projects may have to become more highly focused and limited in scope.

Issues: When local business skills are very limited and project funding does not enable adequate staffing, how can indirect (consultant) or direct management skills be developed in a timeframe consistent with need? Is assisting existing training institutions, such as universities, to develop effective business management training programs a viable approach?

C-1.4 German Technical Assistance (GTZ)

Sponsor: German Ministry for Economic Cooperation

Project Value: N/A

Start Date: National Coconut Development Project, 1979

Completion Date: Soon for many program components due to budget cutbacks.

Principal Objectives: Identify, adapt, and stimulate the production of improved varieties of coconut and other commercial crops. Help reduce crop pest problems.

Financial Services: Some via another German agency (KFW).

NTAE Development: Nearly all technical (production-related) applied research assistance.

Discussion: A reduction in the level of funding by the German government forced GTZ in Tanzania to focus its efforts. As a result, GTZ concentrates on tree crops, including coconut varietal development and mango variety improvement, and on extension work. Early work with hybrid coconut varieties was unsuccessful, so the focus is now on selecting and adapting local varieties. Budget constraints have severely limited the amount of extension work.

Another German government agency, KFW, provides financial assistance, usually to state entities, and GTZ is working with KFW to help finance improvements in local agricultural R&D capacity.

GTZ's regional Integrated Pest Management (IPM) program is assisting the plant protection division of AgMin in red locust eradication and mango pest control projects. IPM is a comparatively new program (January 1994) that has some problems such as limited availability of counterpart funds and limited local technical assistance/support. Local training of counterparts is an essential component of the program, but low morale and low government worker pay make counterpart training very challenging.

GTZ also has a regional postharvest program that is focused on technical assistance, primarily postharvest loss measurement. Later it will investigate ways to reduce postharvest losses.

The Hans Siedel Foundation (HSF) is doing some work in SME training.

A Germany-based government organization called ProTrade attempts to identify Tanzanian producers of products that can be imported into Germany (e.g., organic vegetables) and then help the potential exporter develop the business.

Aid programs are difficult to administer when they must work through local government counterparts. The government has very little money, and thus government employees have low morale and their pay is so low that they must work other jobs to survive, which limits their dedication to their government jobs. GTZ is therefore looking at PVOs/NGOs as local counterparts.

M&E for GTZ projects tends to be subjective and informal, since their success is quite dependent on GoT support and cooperation.

Impact: While the overall impact of GTZ programs is difficult to determine, it is clear that GTZ is looking for better ways to implement their various projects.

Conclusions: Low morale/motivation and second jobs are significant constraints to programs that use local government counterparts, especially when government wages are inadequate. Thus, government organizations should not be used in such situations.

PVOs/NGOs may be a viable alternative to local government entities when the government entities lack counterpart funds and employees are poorly motivated.

When donor funds are reduced, programs are forced to prioritize and focus their efforts on fewer areas.

The success of ProTrade, HSF, and KFW merits further evaluation.

C-1.5 Network Vegetable Production Africa (NEVEPA)

Sponsor: GTZ

Project Value: Unknown, but quite small

Start Date: Early 1990s

Completion Date: 1996, depending on GTZ funding

Principal Objectives: Develop and support the Tanzania Vegetable Production Network (TVPN) as an effective means of exchanging information on the opportunities and benefits of commercial vegetable production.

NTAE Development: Exchange information, primarily on vegetable production techniques, but also on marketing.

Discussion: TVPN's main deliverable is a newsletter about vegetable production and marketing, but the project has found it very difficult to get people to contribute articles. The TVPN secretariat collects information about commercial vegetable production and makes it available to members at headquarters in Arusha or via mail. Network partners are some twenty member institutions, each represented by a liaison officer. Member institutions are primarily groups of vegetable producers, input suppliers, and researchers as well as extension and training personnel in Tanzania; however, those most interested are in the Arusha/Moshi area. Topics of most interest to the network are the economics of production, inputs availability and pricing, and postharvest loss minimization. TVPN held a Networking Skills Training Workshop in late 1994. One of the network's main challenges is sustaining itself after the withdrawal of GTZ support.

NEVEPA, along with the Tanganyika Farmers Association and the Hans Seidel Foundation, sponsors small-scale farmer training in horticulture production at the Horticultural Research and Training Institute (HORTI) in Tengeru. Since 1986 more than 1,400 farmers have undergone one- and two-week training programs in vegetable and fruit production, utilization, and preservation. Participants are given a local language reference pamphlet and high-quality planting materials upon completion of the course. HORTI Tengeru has more applications for training than they have funds to provide the training.

The Urban Vegetable Promotion Project (housed at HORTI Tengeru) has done studies on urban demand for vegetables, on prices, and on market characteristics, but it has yet to establish a firm direction or objectives.

The Uzambara Mountains are an area with very good horticultural production potential. According to studies, the best products to produce there, are cabbage, onions, and tomatoes. GTZ sponsored a commercial horticultural venture there, which prospered until its German advisors left. Unfortunately, the expatriates did not develop local counterparts and did little human resource capacity-building (i.e., they did not transfer their know-how). The project was turned over to the Uzambara (Socialist) Cooperative, which eventually sold most of the assets.

Indigenous varieties of African traditional vegetables have a short growing season and high productivity, so they can produce a good yield for farmers. They are also resistant to pests and tolerate a wide range of growing conditions. NEVEPA has a special interest in increasing the knowledge about and production of these vegetables.

Moshi has several active green bean exporters who can use the airports at Kilimanjaro or Nairobi. Many new horticultural firms are springing up in the Arusha/Moshi area, often sponsored by Kenyan or Tanzanian politicians.

Based on NEVEPA management's observations, the major constraints to SME participation in horticulture are:

- Due to years of socialism and foreign domination, many Tanzanians have little initiative, or at least are so risk averse that they do not want to try new things.
- The few individuals interested in private enterprise have generated their money from sources other than agriculture.
- Successful SME involvement in horticulture will most likely be as outgrowers for firms with money, initiative, and a knowledge of international markets.

Outgrower schemes can succeed in Tanzania. In Moshi, SunRipe works with some 2,000 outgrowers and does very little of its own production; in Dar es Salaam, Sima International uses outgrowers for chilies, along with a nucleus farm; and Katinda is using outgrowers for passion fruit, mostly for the domestic market. (See 6.5.1 for a precaution regarding SunRipe).

According to NEVEPA management, TANHOPE, a horticultural association, will not be successful until its members decide to stop competing with each other and cooperate for mutual benefit.

Impact: The impact of NEVEPA and TVPN is difficult to assess; it has yet to establish a firm constituency, and its sustainability after donor support ends is uncertain. However, the need to support the sustainable commercial development of vegetable production in the Arusha/Moshi area is clear. It is possible that the project is too small (understaffed) to have a significant impact on such a large potential business.

Conclusions: Donor-supported projects can develop and support very logical and beneficial NTAE development entities (e.g., associations, cooperatives, networks, financial institutions). If the beneficiaries of these entities are not themselves well established and viable, however, they will not support the entity after donor assistance ends.

Training that is followed by supplying the key inputs needed to apply the training is much appreciated by the intended beneficiaries.

Developing local counterparts and the effective transfer of project/activity know-how from the foreign advisors to locals is essential for sustainability, and must be a key component of all projects.

When locals are risk averse and inexperienced in NTAE production and marketing, the best way for them to develop is via outgrower or subcontractor relationships with large, experienced firms.

Issue: How can the success, future prospects, and specific agreements of outgrower schemes in the Arusha/Moshi area be further assessed?

C-1.6 The Social Action Trust Fund (SAT)

Sponsor: USAID

Project Value: $30 million

Start Date: 1995

Completion Date: 2000

Principal Objectives: Stimulate private sector development by providing equity and debt financing at favorable rates. Use the proceeds from investments to provide grants to NGOs who will strengthen programs to assist AIDS orphans to become productive members of society.

Financial Services: Main area of focus.

SME Development: Focus of the RMPS portion of the project.

Discussion: The umbrella project for USAID private sector support in Tanzania is the Finance and Enterprise development (FED) Project**,** a very carefully worked out financial and management assistance program aimed at fostering income growth for the unemployed and underemployed by stimulating private enterprises. The program supports The Business Center, a loan fund called RMPS (managed by First Adili Bank), and a more complicated Social Action Trust, which is designed to "(a) invest in the

Tanzanian private sector, working through existing financial institutions and new institutions as they arise; and (b) use earnings from interest and investments to make grants to non-governmental organizations to strengthen programs to assist AIDS orphans in becoming productive members of society."

The SAT board had five members, chosen primarily for their integrity, but three have resigned due to lack of interest. More emphasis by those who select the Board seems to be needed on business and finance experience.

The SAT deposited around $20 million in Tanzania some time ago, which was converted into local currency. Delays in getting SAT operational have likely resulted in considerable depreciation in the value of the funds.

General observations of SAT management include the following: Donor funds funneled through the Ministry of Finance and the commercial banks have become nonperforming loans. All commercial banks, except those that are foreign-owned, are technically bankrupt. The general perception is that if the government or a donor supports a project, it is a give-away, not a commercial undertaking. Therefore, any involvement by a donor must be disguised.

The general constraints to SME Development are:

- Minimal legal framework. It is very difficult to enforce a loan or any other agreement in court. This results in the need for "hands-on" relationships with beneficiaries *post-financing* to help ensure loan repayment.
- Minimal financial infrastructure (checks could not be written until very recently). Many people are exiting from the banking system, due to overstaffing, and are opening their own businesses, although they have little or no real business experience.
- Most entrepreneurs have little or no capital or collateral as a result of the previous dominance of the state in commerce and as a result of land tenure problems, which are caused partially by politicians giving land to people and then taking it away again.

The lack of financing is a major constraint to SMEs. Therefore, the RMPS project, using SAT funds, was designed to make financing available to SMEs of registered entrepreneurs (see section 6.4.1).

The general opportunities for SME Development are:

- Many entrepreneurs have good ideas and a few have a little capital.
- Many opportunities are created by the state getting out of some businesses.
- Chamber of Commerce members are mostly from SMEs and they want to get private business going.
- Post-financing assistance should be a big help to businesses and enable them to succeed, pay back their loans, and increase the value of their shares.

The Confederation of Tanzania Industries is inactive and is perceived as politically influenced.

The Tanzania Immigration Department is against using expatriate advisors, so donor projects that require a large number of foreign advisors will not be approved.

Impact: Too early to determine; just getting started.

Conclusions: New venture capital projects should investigate the experience of other USAID venture capital projects, especially in SSA, before finalizing a design.

Wherever possible the board and management of a supported SME development entity should be selected on the basis of both integrity *and* successful business experience.

When the dominance of the parastatals in business is diminished, new SME opportunities should emerge.

Issue: What is the best way to persuade immigration department personnel that expatriate advisors generate much more local capacity and employment than they replace?

C-1.7 Swedish International Development Authority (SIDA)

Sponsor: Swedish Government

Project Value: For Swede Corp. only, $2 million/year

Start Date: N/A

Completion Date: Ongoing

Principal Objectives: Broad-based development

Association Development: Through Swede Corp.

Financial Services: Supports TVCF through Swede Corp.

SME Development: Supports Small Scale Industries Association.

Discussion: SIDA's major support goes to environmentally friendly forestry development. Market-oriented projects in the past were not successful because they were implemented through parastatals, resulting in numerous project management and enabling environment problems. The difficulties being experienced by parastatals and SIDA's policy of working through government entities has made it difficult for SIDA to develop and implement market-oriented/private sector development projects.

SIDA supports the Structural Adjustment Program, which is coordinated by the World Bank, to improve Tanzania's balance of payments. It participated in a study by the Industrial Promotion Council (IPC) that suggested a focus on the facilitation and promotion of export industries and a significant reduction in the regulation, control, and monitoring of exports by the government.

BITS, which is sponsored by SIDA, offers 20–30 technical courses per year, some of which are related to agriculture. BITS pays the course fees and participants pay the expenses.

Swede Corp., which has been operating in Tanzania for about six years, supports private sector development. It has invested in the Tanzania Venture Capital Fund, and supports the Confederation of Tanzania Industries (CTI) and the Tanzania Chamber of Commerce and Agriculture (TCC&A). Support to the TCC&A is focused on linking it to other Tanzanian Chambers of Commerce. Swede Corp. supports other association development activities including the Small Scale Industries Association.

General observations of SIDA management include the following: Tanzania needs to improve its industrial policies and should do so in cooperation with private industry, since most government officials have no knowledge about or understanding of the private sector.

The functioning of the customs service is inadequate and needs considerable improvement. Tax collection (customs, sales, excise taxes on imports [a particularly serious problem] and exports, and taxes on corporate and personal income) is nearly always negotiated and not related to the official schedules. High customs duties, even when negotiated, inhibit the development of the transport sector and private sector business, since both imports and exports are restricted.

What is important in Tanzania at the current time is not technical know-how, but "know who" (who you know)!

Impact: SIDA's programs cover a broad range of projects, and assessing their impact would require a much larger undertaking than is possible for this activity.

Conclusions: After a socialist government leaves power, the new government must try to quickly determine how to best promote export-oriented industries and dramatically reduce the regulation, control, and monitoring of most exports.

Improvements in government industrial policies must be accompanied with significant input from the private sector, especially when evolving from a parastatal-based economy.

Current major constraints to private sector development in general, and to exports specifically, are poor performance of the customs service, inadequate enforcement of tax laws, and excessive customs duties on inputs that are to be re-exported.

C-1.8 TechnoServe

Sponsor: Several, including DANIDA and FMO

(Dutch)

Project Value: N/A

Start Date: N/A

Completion Date: Ongoing

Principal Objectives: Currently, to continue the development of a milk production and distribution cooperative.

Association Development: Started with an association but shifted to a cooperative.

SME Development: Main thrust.

Discussion: The early activities of TechnoServe in Tanzania involved developing input sources for producers, but that need has diminished recently. They also *had* a management advisory group for micros, SMEs, SHGs, NGOs, PVOs, and other entities, but clients, especially the micros and SMEs, were very poor at paying, supporting donors were not comfortable with no fixed assets/tangibles, and effectiveness evaluation was difficult. Most of TechnoServe's staff are locals trained as accountants.

TechnoServe is developing and commercializing a milk producers cooperative near Arusha. It began as an association but could not act as a commercial entity (i.e., conduct transactions as an association), so it changed to a cooperative. Also, cooperative laws are more developed and conducive to a commercial business, cooperatives tend not to be taxed, and the government cooperative bureaucracy is passive. Cooperative management style is the main challenge. The main functions of the cooperative are milk collection and raw milk sales, although there is some processing into cultured milk. The only processing plant in the area, a parastatal, is not operating, so there are few buyers for raw milk.

On other projects, TechnoServe develops, packages, provides TA, and presents the projects to donors such as DANIDA and FMO for funding. This is often accomplished through the National Income Generating Project (NIGP) in Dar es Salaam, backed by UNIDO, which acts as a broker between donors and projects and can help manage projects. Its interests are very broad, and not limited to agriculture or agribusiness.

Technical skills are available in Tanzania, but *management skills* are missing. Capital costs are not a major constraint, even for microenterprise (<$20,000 in investment) or SME ($20,000–$50,000) projects. Entities like APDF can help source financing for $250,000+ projects. The problem is in the $50,000–$250,000 range, which represents a significant investment, but is not enough to interest major investors/financiers in carrying out the necessary feasibility work.

The most difficult donors for TechnoServe to work with are those that put their own personnel, who have less than pragmatic (often unworkable) ideas on how the project should be implemented, on a project.

M&E must be kept basic and simple, such as producing monthly accounts of progress that are compared to budgets for assisted clients, and establishing the starting point/baseline. Collection of social benefits and secondary information is usually not cost effective, but some balance between quantitative and qualitative information can be achieved.

Impact: TechnoServe has a good reputation in the Arusha/Moshi area, but the impact and scope of its programs seems minimal when one considers how long it has been working in the area.

Conclusions: New entities (e.g., associations, cooperatives, corporations) that are developed to capitalize on opportunities or resolve problems caused by the reduced role of parastatals must remain flexible in structure until the best form of organization, based on local laws and participants' preferences, can be determined.

Micros, SMEs, and even local government entities find it difficult to pay for anywhere near the full cost of business advisory services, especially those entities that are not able to leverage expensive staff.

The shortage of management skills is usually a greater constraint to SME development than technical skill shortages in the early stages of private sector development.

The "missing middle" of financial services availability is projects in the $50,000 to $250,000 range.

Donors need to ensure that the managers they assign to projects have practical ideas and *direct experience* in the disciplines in which they will be working.

C-1.9 The World Bank (World Bank)

Sponsor: Multinational

Project Value: N/A

Start Date: N/A

Completion Date: Ongoing

Principal Objectives: Finance a range of development projects and use the SAP conditions precedent to stimulate movement toward a market-led economy and sound macroeconomic policies.

Discussion: In 1990, NTAE exports from Tanzania were officially just under $42 million. This is very low considering the number of companies involved, so considerable under reporting is likely. However, there was a dramatic increase in official NTAE exports between 1985 and 1990.

Transport, which often accounts for 30–40 percent of the landed price, is a major determinant of NTAE success. Tanzania's refrigerated sea freight facilities need to be improved. Air freight rates from both Dar es Salaam and Kilimanjaro are competitive with those of neighboring countries, but continued reasonable rates are dependent on increased volumes of tourist traffic, especially for Kilimanjaro. Outlook for this is positive due to the crime and insecurity of Nairobi, Kenya.

The Arusha area is well suited to flower production and is within easy reach of Kilimanjaro airport. The key to success for Tanzanian flower growers will be a combination of high quality, high yields and continued availability of space on passenger flights (less costly than cargo) to Europe. The EU flower market will continue to be well supplied and only those competitors with the above characteristics will be able to compete.

Most current vegetables are produced by small farmers and are sold on the domestic market. Increased production is constrained by a shortage of high-quality planting materials, input supply inadequacies, and a small domestic market. The Arusha/Moshi area has growing conditions very similar to, if not better than, those in Kenya, and can produce similar products such as French green beans, chilies, avocados, mangoes, and okra. The export market for these and other specialty crops is good if Tanzanian exporters can maintain a high quality and a consistent supply. It is also important for Tanzanian exporters to establish close links with importers in the EU that are supplying the major supermarkets, which purchase more than 50 percent of imported vegetables. To sell to these importers on a consistent basis, Tanzanian exporters must meet the following criteria:

- Quality as related to size, shape, appearance, and maturity specifications
- Uniformity of size and quality in each carton and for each shipment
- Cold chain availability and control to enable and ensure quality and uniformity
- Export volumes sufficient to meet the needs of the large EU importers and their customers.
- Continuity of supply, delivered on precise time schedules
- Packaging, often tray packing, ready for retail sale under very strict health and safety requirements
- Production controls, so that certification can be given of chemical residues and verification of chemical spraying programs

These requirements make it difficult for the small producer and exporter to supply large EU importers, but it can be done, especially if some type of well-managed consolidation of smaller exports into fewer exporting entities takes place.

While private sector NTAE development is based on private initiative and investment, there are constraints to NTAEs from Tanzania that the government can help alleviate. The improvements needed include:

- An enhanced banking system that makes working capital available to exporters and efficiently, effectively, and quickly implements imported input procurement and foreign exchange transactions

- Improved foreign exchange valuation (at the market rate) and allowing exporters to retain their export earnings to acquire future imported inputs
- Stimulating air freight capacity by promoting tourism and making sure fueling and airport charges are highly competitive
- Improved cold storage and weighing facilities at the airports
- Support for the development of viable exporters' associations, (e.g., TANHOPE), which can work with the government to address these constraints

Kenya's success developing NTAEs should provide useful lessons for Tanzania, which include:

- Export horticulture has a high risk and the failure rate of new entrants is high, the products are highly perishable, customer specifications are rigid, and competition is tough. Successful competitors had prior experience in horticultural production and marketing and diversified across buyers, products, and suppliers. Government infant industry support and strong links to importers were critical to value-added success.
- The NTAE business developed with very little help from government research and extension facilities. Private R&D significantly lengthened market entry timing.
- Foreign investors with access to international expertise were able to shorten lead times to successful start-up.
- Experiments with a wide range of arrangements between farmers and producers enabled an effective and flexible response to changing customer and competitive conditions. Many of the large Kenyan exporters have recently begun their own production, moving away from outgrowers supplies, due to the increasingly rigorous specifications and timing requirements of their retail ready buyers.
- Kenya has good support services and infrastructure, including reasonable roads and airport facilities, a functional financial system, and a wealth of private managerial and technical expertise. Tanzania may find it difficult to replicate these preconditions for NTAE success.

While oilseeds are normally not considered an NTAE, they offer significant potential for Tanzania. While nearly 50 percent of Tanzania's vegetable oil requirement is supplied by imports, specialty oilseed exports, including sesame, sunflower, and groundnut, appear promising.

The private sector, likely in association with foreign firms, must take the lead in developing NTAEs from Tanzania. Improvements in input availability, transport (especially air), and finance are needed but must be accomplished within an open, competitive environment. Measures needed to improve the chances for success of NTAE ventures, which the private sector can help stimulate, include the following:

- Organize, likely into integrated producer/exporter associations, so that overhead costs for cold storage facilities, packing plants, and the like can be shared. Coordinate the use of scarce resources such as cargo space, and provide services such as applied research, extension, and quality verification.
- Disseminate information about tax incentives, market prospects, and import market contacts. Provide a facility to share the cost of feasibility studies.
- Promote Tanzania as a positive foreign investment location to produce tropical products for the European market, taking advantage of its ACP duty free status, excellent productive potential, low freight costs, and low-cost labor.

Impact: The scope of this study did not enable a complete assessment of the impact of World Bank programs in Tanzania.

Conclusions: Because of the importance of transport costs to NTAEs (30–40 percent of the landed price), air freight, and to a lesser extent sea freight, costs must be very competitive. For air freight, this to some extent dependents on passenger traffic volume.

The EU horticulture and floriculture markets will continue to be well supplied; therefore, only those competitors with high quality, high yields, a consistent supply, and low labor and transport costs will survive.

A shortage of high-quality planting materials and other input supply inadequacies, as well as a small domestic market for off-production that does not meet specifications, constrains the development of NTAE businesses, especially those involving SMEs.

More than 50 percent of the imported vegetables sold in the EU are imported by wholesalers for the large supermarket chains. These chains have very strict quality and phytosanitary specifications, explicit timing requirements, buy in large quantities, and often require retail packaging at product origin. Participation in this large NTAE business by SSA exporters requires tight control, large-scale operations, and *close linkages* with the big EU importers.

SMEs will be best able to participate in higher value NTAE business if they are able to share expensive fixed assets and consolidate their output and marketing efforts.

Assessing the basis for successful NTAE development efforts in similar countries, especially competitors, should be one of the first steps in any NTAE development program design process. Ongoing M&E of these countries' comparative NTAE development strategies, structures, and progress would also be beneficial.

Private sector technical and managerial expertise is a prerequisite for successful NTAE development, which will be significantly constrained until such expertise is available on an ongoing basis.

Country-specific, high-opportunity subsector studies are needed to identify specific SME operating constraints. Associations, cooperatives, self-help groups, and local NGOs are often useful in resolving specific individual constraints and communicating with policymakers to address problems associated with the enabling environment. Technical and managerial assistance must emphasize adaptability to changing local and subsector-specific conditions and *demand-driven* solutions. Program design must include periodic assessments of impact and demand to evaluate and improve practices.

C-2 FINDINGS ON ASSOCIATIONS

There are only a few agricultural or agribusiness associations in Tanzania. The emergence from socialism, where the government controlled all organizations, does not lend itself to the formation of member-supported associations. However, two relevant associations were selected to be profiled in this section.

C-2.1 Confederation of Tanzania Industries (CTI)

Principal Objectives: Support the development and success of member firms, primarily by promoting the passage and effective enforcement of government policies.

Discussion: CTI receives support from various donors, including SIDA. The basic findings from the CTI are:

- Government policies are not conducive to exports. To successfully export, working capital and a reliable transportation system are needed, neither of which is available in Tanzania.
- In the past donors tried to help supply the private sector with working capital, but the administration of these funds was weak and they went to importers rather than to exporters and domestic industry.
- TDFL should be a reasonable cost source of financing, but they have very strict requirements on collateral and their environmental impact statement requirements are onerous.
- Privatization should equate to more *accountability* in business operations. This has been a serious problem with parastatals.
- Private industry contributes about 8 percent of GDP but nearly all of the tax revenue. The cor-

porate tax rate (35 percent) is too high, especially considering how little the private sector receives from the government.

- There are considerable coordination problems among the various ministries of the government, which all too often results in conflicting policies.
- There is a strong need for a regular dialog between the government and the private sector to help the government understand the private sector's needs. The private sector itself needs to get better organized, especially to assist indigenous entrepreneurs.

Donors supporting CTI tend to use subjective considerations when assessing CTI's impact and effectiveness. CTI's influence on the development of government policies and procedures conducive to private sector development is an important measurement.

Impact: CTI's impact is difficult to assess, but it is perceived by many as using its political connections for the benefit of members' own interests.

Conclusions: The lack of working capital and a poor transportation system are two major constraints to export development.

When donors supply the private sector with working capital, care must be taken to ensure that large amounts of it are used to finance domestic and export industries rather than imports.

Donors providing financial services must be careful that the requirements placed on borrowers are highly relevant for the circumstances in a country. For example, *complex* environmental impact assessments should not be a high priority.

Policy enhancement projects may need to help the various government ministries coordinate their policies, especially those that affect private sector business, so that the policies do not conflict. Significant involvement of the private sector in policy development will help minimize such inconsistencies.

C-2.2 Tanzania Exporters Association (TANEXA)

Principal Objectives: Support members' export business success.

Discussion: TANEXA received help from The Business Center during its formation and in 1993 in developing an operating strategy.

There are about 50 members, who are primarily producer-exporters. The second largest group is middlemen exporters. The exports of association members were only about $300,000 in 1994, not including the flower exporters.

Members are located in a wide range of agronomic zones (temperate and tropical), and therefore they produce and want to export a wide range of food and agricultural products, including fruits, vegetables, spices, flowers, and herbs. The target markets for most TANEXA exports are Europe and the Middle East. The main products of interest to TANEXA members are fruits, including mangoes, avocados, pineapples, (believe they are very competitive), rambutans (fresh), and grapes, but not apples due to freight limitations; vegetables, including Asian vegetables and asparagus (off season); flowers such as roses, especially in Arusha/Moshi; and spices, including chilies (fresh and dried), pepper corns, cinnamon, and cardamom.

The association is in the process of trying to understand members' needs. One of the problems in doing this is that members tend to want to "just produce" and not get involved in mush else. Association leadership wants to do market opportunity and comparative advantage evaluations.

The main constraints to TANEXA exports are:

- Lack of finance, especially equity for cold chain development, at both the producer and exporter levels, and foreign exchange working capital, specifically for spice exports
- Inadequate access to the technology and other information that are needed to meet buyer specifications
- Poor market information, especially regarding varieties, quantities, and timing
- Poor communications systems, both domestic and international

TANEXA would like to develop the following services for its members to overcome these constraints:

- Market potential studies, including customer specifications
- New sources of working capital and ways to speed up financial transactions; group (TANEXA) supported lending seems to have good potential[12]
- An association-owned domestic and international communications center

TANHOPE started in 1989 but has yet to become active. The secretary and leadership of TANHOPE are not exporters themselves, but they intend to export. TANEXA has a horticultural subsector chairman and subcommittee that has taken on the task of revitalizing TANHOPE.

Impact: The impact of the association on Tanzanian NTAEs appears to be minimal at this time, but leadership is serious and trying to develop a viable and sustainable association in a very difficult but apparently high-potential environment.

Conclusions: Members of producer-based NTAE associations tend to want to focus on production and not be bothered with processing and marketing, Integrated producer/packer/exporter associations seem to be a viable way to overcome this tendency.

Countries with traditional or ethnic-based ties to medium-size markets should consider using these connections as a basis for export development, and also for major markets.

It is very difficult for SME exporters to obtain the technical and market information needed for successful NTAE.

NTAE association group lending schemes will not require large amounts of capital because members' export volume is usually quite modest. Proper cash management techniques will help reduce the total amount of working capital required.

NTAE associations need a core of actual exporters. Success will be questionable and prolonged with "want-to-be" exporters or non-exporting producers.

Before providing support to an NTAE association, donors must determine the amount of export experience association members should have, their export opportunities and potential, the status of the export-related enabling environment, the extent to which association organizers and leadership understand members' priority needs and have viable programs to serve these needs, and the quality of association management.

C-3 FINDINGS ON DEVELOPMENT FINANCE ORGANIZATIONS

Tanzania has a narrow range of financial institutions that serve the NTAE and SME subsectors. The high cost limited and availability of financing are significant constraints to private sector development. The banking system is very underdeveloped. While Standard Chartered has a bank in Dar es Salaam, the bank serves primarily its international customers and the better parastatals' international business. The National Bank of Commerce (NBC) is the only commercial bank with close to a national network. The Cooperative and Rural development Bank (CRDB) finances primarily the cooperatives and agricultural marketing boards. The current 35–42 percent domestic bank rate makes debt very difficult to afford, even with high inflation. For farmers without clear title to land, which is quite prevalent, financing is a particularly serious constraint.

Following are profiles of the most significant and activity-relevant finance institutions in Tanzania.

C-3.1 First Adili Bank (1st Adili)

Sponsor: Shareholders; USAID for the RMPS

Project Value: RMPS, $1 million

Start Date: RMPS, late 1995 or early 1996

Completion Date: RMPS, 2000

Principal Objectives: Stimulate the development of the SME private sector by facilitating access to financing using 1st Adili as an intermediary.

Financial Services: Improve SME access to finance, both debt and equity.

SME Development: Target beneficiaries.

Discussion: 1st Adili is a new private bank that was set up partially with the help of Swede Corp. consultants. Management believes there are private sector business opportunities created by the reduction in power of the state marketing boards. However, the official changes in regulations often are not implemented (e.g., the movement of maize across regional borders is still unofficially prohibited, although officially allowed).

The bank's Enterprise Unit will manage the RMPS fund for USAID. The Business Center, or its outside consultants, Venture Financing Consultants (VFC), will recommend clients and do the feasibility study for the financing as well as the hands-on follow-up to ensure repayment and to resolve default situations. VFC also will be responsible for seeing that the registered MSE client provides frequent reports on the status of their operations and the prospects for loan repayment. The financing, anticipated to be between $5,000–$30,000 per borrower, can be based on a standard retail loan agreement with some flexibility in collateral based on VFC recommendations and commitment to help manage repayment. Financing terms will be 18–36 months. SMEs will be able to use equity substitutes, such as converting part of debt into equity, and income participation notes. The borrower must understand that this is a commercial loan, because often it is generally assumed by borrowers that government and donor-associated loans do not need to be repaid.

The challenges that RMPS is likely to face include doing all of the paperwork necessary to make it operational; getting clients to *understand* the instrument and believe that it is a commercial loan that must be repaid; and achieving the geographic reach that is necessary to find enough qualified borrowers.

Qualified borrowers are believed to be available, but 1st Adili will require borrowers to follow much stricter bookkeeping practices than is the customary practice of SMEs. Finding entrepreneurs with equity to invest is not anticipated to be an insurmountable problem. Where there is an equity shortage and a qualified borrower, 1st Adili will coordinate with the TVCF to integrate their equity. Valuation of rural-based assets, however, will be a problem.

An ASC/FADC-type entity should be effective in Tanzania, especially if it is focused on a specific subsector or geographic area. Integrating equity, debt, and managerial and technical assistance into one entity would overcome the coordination problems that arise when these services are offered by different entities (e.g., between The Business Center, TVCF, and 1st Adili). Such an entity would greatly reduce transactions costs, which are very high in Tanzania.

Impact: Both 1st Adili and the RMPS project are too new to have their impact assessed.

Conclusions: Official policy and enabling environment enhancements are often not fully implemented.

SME managers often assume that loans, especially when donors or the government are involved, do not need to be repaid.

SMEs are not accustomed to the type of recordkeeping required by the financial institutions from whom they seek financing.

Achieving a sufficiently broad geographic reach to identify numerous qualified borrowers is difficult in countries with a poor infrastructure.

Valuation of rural-based assets is a problem, especially when land tenure is insecure and infrastructure is poor.

If an SME entrepreneur must work with several different institutions to source his business support needs (e.g., financing, technical assistance, and managerial advice), his burden is much greater, paperwork much more complicated, and coordination problems between support institutions much more likely.

C-3.2 Lake Zone Small Business Support Project (LAKE)

Sponsor: Overseas development Administration (ODA) and indirectly the Commonwealth development Corporation (CDC) of the United Kingdom

Project Value: Initially $1 million

Start Date: January 1995 (GoT approval)

Completion Date: 2000

Principal Objectives: Stimulate development and employment in the private sector in the Lake Zone by providing support for 15–20 small enterprises engaged in value-added production.

Financial Services: Equity for SMEs involved in value-added businesses.

SME Development: SMEs are the target beneficiaries.

Discussion: Three funds will be established to support the development of value-added SMEs in the somewhat inaccessible Lake Zone on the southern edge of Lake Victoria, which has a population of around 6 million and is located around Mwanza, Tanzania's second largest city.

The main Lake Zone Equity Growth fund (LAZER) will be initially funded at $750,000 to be used as a source of equity (in the $20,000–$50,000 range per company) for value-added production SMEs (5–50 employees). It will be managed by Equity Investment Management Ltd. (EIM) (for $30,000/year), which also manages the TVCF based in Dar es Salaam and is 40 percent owned by CDC. EIM will open an office in Mwanza.

Companies needing funding to develop proposals for LAZER investment, including a quality business plan, can draw upon the Investment Appraisal Fund (IAF), also managed by EIM and initially funded at $75,000. Firms whose proposals are accepted and receive LAZER funding must repay the full cost of proposal and business plan preparation. Firms whose proposals are rejected still must make a significant contribution to the costs of project proposal preparation.

The project will also strengthen local service-providing organizations such as management consultants (e.g., Business Care Services in Mwanza), training institutions, and accountants by providing training for individuals from these professions. This will be paid for from the Training and Advisory Fund (TAF) to be managed by the British Council and initially funded at $150,000.

The LAKE agreement negotiated between the ODA and the GoT allows for duty free import of equipment for supported projects and for shares in LAZER to be sold to the public at some time after the project terminates.

The SME operational constraints analysis that preceded the design of LAKE found that inadequate infrastructure (especially power, telephones, and roads), high duties on imports, lack of access to finance (especially to pay for needed imports), and competition from imports that often pay no duty were the major constraints to SME development. However, none of these constraints will be addressed by LAKE.

On those rare occasions when financing is available, the real cost of financing from the National Bank of Commerce is 50–60 percent due to hidden costs, and they are not extending any new medium- to long-term loans.

Much of the production machinery used by the private sector was contributed by donors and was often secondhand. When this equipment has not been well maintained, replacement (and therefore considerable capital investment) will be necessary to achieve reasonable production efficiency. For those who have maintained their equipment, some relevant TA and working capital will help improve productivity, throughput, and quality.

Given the rural nature of the Lake Zone and the presence of fish processing, leather, and other agribusiness enterprises, it is likely that many of the companies interested in LAZER and IAF will be agribusiness firms.

Impact: Just being implemented.

Conclusions: Apparently an underlying assumption of this project is that LAZER equity, and the preparation work necessary to qualify for LAZER support, will help entrepreneurs establish the collateral base and credibility needed to apply for debt from commercial sources.

Very limited equity availability is viewed by some donors as a major constraint to SME development.

Inadequate infrastructure (especially power, telephones, and roads), high official duties on imports, lack of access to finance (especially to pay for needed imports), and competition from imports that often pay no duty were major constraints to SME development.

Improper and/or inadequate equipment maintenance often results in very high operating and rehabilitation costs for parastatal and private sector companies.

Financial services management teams need to be involved with either a large single fund/institution or several funds/institutions to spread the high cost of their services and keep the cost from being a burden on any one project.

Providing special funds to help SMEs apply for equity investment and to develop local business services capacity is a reasonably integrated approach to SME development.

Issues: Can organizations that provide business services to Mwanza businesses be developed quickly enough to support SMEs in which LAZER will invest? How will TA and managerial assistance be provided to entrepreneurs interested in businesses where there is no knowledge base in Mwanza i.e., where locally consultants have no prior experience?

Did ODA consider asking TDFL to join them in the LAKE project so their favorable rate *debt* could be combined with LAZER equity?

Tanzanian companies must deposit 100 percent of the value of any foreign exchange they need in Shillings, plus pay interest on the foreign currency they borrow until it is repaid. This is a major constraint to exports that require imported inputs. How will LAKE help overcome this serious constraint?

C-3.3 Standard Chartered Bank (StanChart)

Sponsor: Shareholders

Start Date: December 1993

Principal Objectives: Establish StanChart as an important commercial banking competitor in Tanzania, serve international customers, achieve an acceptable return on investment.

Discussion: StanChart's major business is providing lines of credit to Tanzanian divisions of its multinational clients and to the most viable Tanzanian parastatals (i.e., overdrafts for companies with sales in excess of $1 million). In mid-1995, outstanding loans and overdrafts were valued at about $10 million.

Cooperatives in Tanzania are not very professionally managed and therefore represent a high risk. Nearly all of the local banks have balance sheets that would not meet international standards.

Prevailing short-term interest rates are 37 percent plus 2 points, or 39 percent. StanChart's cost of money is 33 percent, so it cannot afford to do much business at 39 percent. The up-front fee StanChart charges helps defray operating costs and is its main source of sustainability. Foreign exchange lending is quite risky for the borrower (due to high local inflation), and therefore for the lender, given the level of inflation.

Privatization is moving slowly ahead, but there are problems with the durability of the arrangements made as a part of a privatization acquisition (i.e., "a deal is not necessarily a deal").

There is a shortage of viable borrowers, primarily due to inadequate management. Human resource capacity limitations, managerial and technical, are the main constraints to private sector growth and success. Also, infrastructure is inadequate and expensive to use, especially the ports.

Subsectors that appear to have good potential include:

- Cashews, as a Kuwaiti company recently entered the business and is rehabilitating a shelling plant.
- Sisal was once very competitive and there is considerable interest from the private sector in rehabilitating the industry.

When considering an ASC/FADC in Arusha/Moshi (the most logical place for one) the following constraints would have to be overcome:

- Bankable businesses are in short supply because the private sector is very new and few managers have adequate experience or training.
- Poor infrastructure would limit the ability of ASC managers to supervise their clients.

- There are very few models or mentors to provide examples of successful operations or to act as trainers.
- There are very few mid-level managers and technicians available, a serious training program would be required; however, non-Tanzanian Africans could be used in the interim.
- Investors should expect the returns to be longer term only.
- Fraud is rampant at high and low levels.

Impact: StanChart's business has grown quite rapidly in the less than two years it has been in business, and management is satisfied with its return on investment potential and risk factors.

Conclusions: Investors in privatization projects should be cautious about the durability and enforceability of the agreements associated with these acquisitions. The involvement of an investor's home base government or a major multinational donor such as IFC may help preserve agreements.

Lack of entrepreneurial and management experience and a lack of management training is a major constraint to private sector development, especially SME development.

Cashew and sisal products seem to have good NTAE potential for Tanzania.

Africans from other countries may be able to supplement the supply of local managers while locals are trained and gain more experience.

Agribusiness ventures are likely to have longer term returns than those of most other businesses.

C-3.4 Tanzania Development Finance Company Limited (TDFL)

Sponsor: Tanzania Investment Bank (TIB; with 25 percent); CDC (with 2.5 million), Deutsche Investments (DEG; with DM 3.8 million in income notes); Netherlands Financie Rings (FMO); and European Investment Bank (EIB; with ECU10 million)

Project Value: TDFL currently has about $14 million available plus $16.8 million in loans and equity outstanding.

Start Date: 1962

Completion Date: Ongoing

Principal Objectives: Stimulate the development of industry in Tanzania by offering preferential rate debt, and occasionally equity, to highly qualified industrial companies.

Financial Services: Supplies preferential rate debt, and occasional equity, to larger borrowers.

NTAE Development: Some focus on export-oriented industries.

SME Development: Some interest, but smallest loan is $30,000.

Discussion: TDFL is a privately owned, internationally funded, and commercially operated local development finance institution that mobilizes foreign and local funds to offer preferential rate financing to qualified industrial projects. Started and initially managed by CDC, it currently places primary emphasis on the *establishment and expansion* of manufacturing, agricultural, mining, service sector, and other undertakings based on utilization of natural and human resources, and secondary emphasis on development of enterprises that are export-oriented and attract (e.g., tourism) or save foreign currency. The Fund does not invest in social infrastructure such as schools, roads, and hospitals. TDFL's invested equity base is $1 million, and it makes loans only to projects that have undergone a fairly rigorous evaluation process.

The company will invest between $30,000 and $1 million in any single project and wants its portion of the investment to be between 10 and 50 percent of total investment. The average size loan over the last year was around $500,000. While the vast majority of TDFL's more than 200 investments are in the form of *fully secured* debt, it will also invest equity in the best projects. Its current portfolio of 65 projects represents investments of $16.8 million, about 50 percent to parastatals and 50 percent to the private sector, although it has not financed parastatals for several years. Some 30 percent of its investments are nonperforming (mostly parastatals). A TDFL representative sits on the board of all companies in which it invests.

Shilling loan terms are usually 8–9 years in total with a two-year grace period and interest of 29 percent (in a market of 39–42 percent). Foreign exchange loans are offered at LIBOR + 3–4 points. About 25 percent of TDFL's loans are denominated in foreign exchange.

TDFL has some $14 million available to loan, but only about $3 million in the pipeline because they are constrained by the *unavailability of investable projects*. The major constraints on firms being able to qualify for TDFL loans, other than a nonviable investment, are that:

- Most private sector managers are relatively inexperienced in commercial business and come from parastatals where loans were disbursed on the basis of relationships, not on anticipated payback. They are therefore not familiar with performing rigorous feasibility studies or developing viable business plans.
- Most new entrepreneurs have very minimal equity, which limits the collateral they can offer. This makes the debt-to-equity ratio of the firm very high if TDFL financing is approved.
- The typical bookkeeping practice in family-owned and -managed operations does not lend itself to pre-financing analysis or post-financing monitoring.
- The skills needed to develop a bankable proposal and operational business plan are scarce. Therefore, it is very difficult to get the information needed to assess the viability of an enterprise applying for the financing or to monitor its progress afterward.

Because of the difficulties assessing the viability and repayment capability of a project, TDFL does its own project appraisals, and recently established a Corporate Advisory Service (CAS) to help potential clients perform high-quality feasibility studies. This most often involves extensive market analysis and financial projection work. This group will also do rehabilitation and restructuring work. CAS will help TDFL monitor the performance of borrowers during project implementation based on mutually agreed budgets, and will help prepare and monitor clients' regular business progress reports.

TIB, TDFL's local partner, is a much larger financial institution that finances primarily parastatals, and is therefore having many problems.

TDFL believes there will be opportunities for good investments in newly privatized companies, and that TDFL's participation will be facilitated by the fact that the manager of TDFL sits on the privatization board. Other high-opportunity areas include floriculture (TDFL recently invested $300,000 in the Combe Rose Company in Arusha) and grain (e.g., flour) milling, where they have recently provided financing.

From time to time the company will co-finance projects with other financial institutions or donors with similar interests, such as TVCF.

In 1993 TDFL was able to sell six of its equity investments at an acceptable price.

The M&E measures carried out by TDFL appear to be the same as those of any other financial institution: return on investment, increase in assets, loan performance, portfolio balance and risk, nonperforming loans, and balance sheet ratios.

Impact: TDFL has been able to evolve from CDC management to apparent local management and has been able to garner continued and increasing donor support. While 30 percent nonperforming loans is much too high, if most of these are old parastatal customers, it is understandable. Formation of the CAS indicates that TDFL understands the important constraints to its success, and has taken action to resolve one of the main causes.

Conclusions: There is a strong role for USAID to sponsor an activity (possibly via TBC) to help develop and package proposals and business plans for projects seeking TDFL financing, then help the plans become reality. This could be accomplished via training support and mentoring for the CAS; possibly modeled after USAID-supported training provided to AfDB's new private sector development unit officers.

Donor-supported development finance institutions can become fully localized given enough time and training.

European donors seem to be able to jointly fund successful development projects, possibly because they have similar screening requirements.

Difficulty identifying investable projects, not the lack of finance, is the major constraint to donor support for private sector development.

Lack of entrepreneur experience and equity, inadequate bookkeeping practices, and the lack of know-how to develop satisfactory financing proposals and the associated business plans are major constraints to financing private sector ventures.

Development finance institutions often find it necessary to establish their own internal consulting group to help potential clients apply for financing and to monitor businesses post-financing.

Floriculture and grain milling appear to be good agribusiness opportunities, the latter created by the reduced role of state marketing boards.

Debt at a minimum of 10 points below the market (and likely below inflation) is a bargain and should be in very high demand. It would be very useful to know how TDFL can afford to have 75 percent of its debt in local currency at an interest rate below inflation and 30 percent non-performing loans, yet still remain sustainable. Investments in high-yield government treasury bills must help.

Debt providers (e.g., TDFL) cooperating with equity providers (e.g., TVCF) with similar objectives seems very logical and beneficial.

C-3.5 Tanzania Venture Capital Fund (TVCF)

Sponsor: CDC (37 percent), DEG (37 percent), National Provident Fund (Tanzania), FMO, Proparco (7 percent), Swede Fund (7 percent), and TDFL (4 percent)

Project Value: $7.6 million

Start Date: October 1993

Completion Date: Ongoing

Principal Objectives: Stimulate the development of the indigenous private sector by investing equity or its equivalent in high-potential industrial businesses.

Financial Services: Main area of interest; limited to equity.

SME Development: Not specifically; minimum size investment is $50,000; average size to date is $254,000.

Discussion: TVCF is managed by EIM (40 percent owned by CDC, heavily [$662,000] supported by USAID via the FED project, and 20 percent owned by TDFL) and uses its capital to make equity and quasi-equity investments in indigenous-owned companies with high growth potential. It can take up to 50 percent of the equity, but wants at least 25 percent, of a company, with any one investment limited to a minimum of $50,000 and a maximum of $500,000. Income notes, which are debt convertible to equity whose interest rate is a function of company profit, are sometimes used for TVCF's investments, but they do not offer any common debt.

More than 1,300 projects were reviewed in the first twenty months of operations; 1,000 were considered; feasibility studies were completed on 42; and 13 were invested in with $3.3 million in equity (an average of $254,000 each) and $9.3 million in total investment.

The Central Bank of Tanzania has frozen debt availability to the private sector and most commercial banks are only taking deposits and investing in treasury bills, not lending. Therefore, there is very little trade or mid-term finance available. Also, entrepreneurs have very little equity available to at least match that of TVCF, which is the only source of formal equity in Tanzania. These factors impose major limitations on investable projects.

The $500,000 limit on any one investment has not been a constraint to TVCF's growth so far but TVCF is planning to increase the limit to allow more flexibility. The short history of the private sector in Tanzania means there are very few opportunities for mezzanine finance.

TVCF uses TDFL debt for some of its investments. TDFL likes to do this because TVCF does high-quality feasibility studies and its equity investment will help lower the debt-to-equity ratio of a client. TVCF wants a 40:60 debt-to-equity ratio in its investments. If this were to be modified, TCVF could do more business.

TVCF has more than $4 million available for investment, yet it is currently focusing on protecting existing investments. Factors, in addition to those mentioned above, that limit TVCF's growth include the following:

- Venture capital is new in Tanzania, and entrepreneurs, especially indigenous, have yet to become comfortable with the concept.
- Many entrepreneurs are not willing to develop and maintain audible records or to provide the monthly and quarterly reports that enable TVCF to assess and monitor performance.
- Exit mechanisms, such as owner buyback of shares, sale to another investor, and a stock market (especially one interested in IPOs) have yet to become available.
- The services sector offers good potential, but TVCF is prohibited from investing in non-industrial ventures.
- Joint ventures with foreign investors would facilitate the use of foreign know-how and investment, but these are not allowed by TVCF's charter.

There may be some opportunities in privatizations, but most of these would be investments larger than TVCF's maximum.

While verification of collateral for agribusinesses not based in Dar es Salaam is not considered a major issue, it is much more difficult for TVCF to monitor and evaluate the performance of non–Dar es Salaam investments, primarily due to communications problems.

USAID provided TVCF some early organizational support.

EIM will be managing the LAZER and IAF funds for the Lake Zone development project in Mwanza. It is also developing a new fund that will allow a larger maximum investment, participation in new sectors such as service industries, and that will be less restricted to indigenously owned businesses.

M&E for TVCF is the same as for other financial institutions and is based on financial performance (TCVF's performance and that of its investments), as well as on an assessment of the number of new investments. Over the long term, the ability to sell investments at an acceptable price will also be important.

Impact: While TVCF is quite new, it has invested in thirteen enterprises, nine of which appear to be successful. The other four are developing ways to minimize their problems, caused primarily by official import restrictions and inadequate infrastructure. While thirteen companies will not have a dramatic impact on private sector development in Tanzania, they represent a fairly large portion of new firms in TVCF's target size range. Also, they may become models of how to succeed in the private sector, and EIM will have helped develop private sector business analysis and development experience, as embodied by TVCF staff.

Conclusions: The lack of debt financing and entrepreneur equity are both important constraints to the success of venture capital projects.

Financial development projects that require a low debt-to-equity ratio will find few investable projects available in private sectors in the early stages of development. Convertible debt and income notes, along with loan officers who have a good understanding of the applicants' businesses, will help reduce this constraint.

Important factors that limit a venture capital fund's ability to invest its available resources include entrepreneurs' lack of familiarity and comfort with the concept, inadequate recordkeeping practices, the unavailability of exit mechanisms, and restrictions on client size, business sector, or owner nationality.

Monitoring and evaluating investments outside the major metropolitan areas (e.g., for many agribusinesses) is quite difficult, primarily due to communications problems.

High-quality management and support from a donor experienced in business development and finance in developing countries will enhance the probability of success of a venture capital project.

There is a significant opportunity to coordinate and integrate several different existing donor-supported SME development activities: specifically TDFL (debt), TVCF (equity), and The Business Center (TA and managerial assistance). StanChart may even be willing to provide a working capital line of credit to clients who are working with all three of the above entities.

C-4 FINDINGS ON PRIVATE AGRIBUSINESS FIRMS

Following are the findings on agribusiness firms in Tanzania. Due to the limited number of private sector agribusiness firms, this section is brief.

C-4.1 Sluis Brothers (E.A.) Ltd. (Sluis)

Principal Objectives: Manage the production of planting seed for export and sale to NGOs, especially pulses, in a manner that will generate a reasonable livelihood for the owner/operator.

Discussion: Sluis produces planting seed (mostly pulses), some on its own farm, but also some by farmers in the Arusha area. Seed exported to the EU is produced on its own farm and under contracts with outgrowers and is sold to commercial seed companies in Europe, who repack it for retail sales. Open-pollinated varieties are produced for NGOs to distribute in Tanzania for subsistence farmers to plant for food. Pulse seeds also are exported to Latin and Central America. The company has cleaning facilities for the commercial seed.

Predictability of supply is a major problem. Weather varies a great deal and therefore so do yield and total production. For the contract grower good weather equates to high production and deliveries to Sluis from their own farm and typically from their neighbors' farms. Poor weather often means they eat the seed. Sluis supplies the planting seed, and for the most reliable contract growers, other inputs such as fertilizer. The average contract grower commits to 50 –100 acres, but yields are very low due to weather variability and input shortages. Irrigation is not available and would be very costly. The minimal use of inputs and weather variability means that extensive, rather than intensive, production methods are used.

Considerable applied R&D is needed on food pulses for the domestic market since there is a very minimal information base available, but the trend is toward exotic varieties. Varieties are needed that can be consumed locally if necessary and exported if in good supply.

Sluis has tried to produce and market coriander, fennel, and other higher value products, but the market is very volume- and commodity-oriented and a strong, ongoing relationship is needed with an importer/buyer.

Roses seem to be successful in the Arusha/Moshi area, but some of the initial investments were based on very advantageous EU-sourced financing, or on wealthy locals seeking ways to get their money out of the country. Most flower producers in the Arusha area have their own boreholes for water, but they are having problems with water salinity.

Organizing producers into an association is very difficult due to past problems with government- controlled cooperatives.

The major constraints to SME agribusiness ventures are:

- Very limited availability of financing, and financing that is available is very expensive, 40 percent plus; there are very few clear titles to land, so collateral is minimal.
- Packaging materials are scarce and expensive. The jute bags needed to transport seeds from the farm to the factory or port cost Sh850 ($1.55) when made from local sisal fiber and Sh550 ($1.00) to import.
- Privatization has resulted in poor local services and input supply, especially if the companies are "managed" by inexperienced locals. Asian (Indian) managed companies are more reliable and cheaper.
- Inadequate infrastructure is probably the most serious problem, especially telecommunications.

There is a good opportunity to receive certification for organically grown products, both seeds and finished products, because most local producers do not use chemical inputs.

Note: According to Sluis management, while SunRipe is often mentioned as an example of the successful use of outgrowers, it should be noted that large sums of World Bank money that was supposed to finance the company "got lost" and several directors were jailed. Equatorial Progressive in Moshi is probably a better example.

Impact: Sluis has been in business for many years and appears to be doing quite well, although much of its success may be a function of Jap Smit's individual experience and capabilities and his good personal contacts with EU seed buyers and LAC pulse importers.

Conclusions: There are opportunities in agribusiness for good, experienced managers who have some capital.

Input supply problems and the unpredictability of weather are two of the major constraints to output predictability and therefore successful agribusiness ventures in the Arusha/Moshi area.

A mechanism should be developed to tap into the experience of the few successful agribusiness entrepreneurs in the Arusha/Moshi region, and with their help to determine how to accelerate the rate of agribusiness development in the region.

NTAE opportunities exist in high-value specialty products such as fennel, coriander, and organically grown planting seeds and finished products, but strong, ongoing relationships with importers are needed to capitalize on these opportunities.

Past problems with government-controlled cooperatives makes organizing producer-based associations quite difficult.

The main constraints to SME agribusiness ventures are the very limited availability of financing, poor local business services and input supplies (especially packaging), and inadequate infrastructure (especially telecommunications).

The success of NTAE outgrower arrangements in the Arusha/Moshi area should be further investigated.

C-4.2 Sun Flag (Tanzania) Ltd. (Sun Flag)

Principal Objectives: To press unique, locally grown oilseeds and to market specialty oils to international buyers.

Discussion: Sun Flag, a relatively new company founded by a white Tanzanian, produces specialty oils from locally grown seeds. Many of the seeds are gathered by the local population, and a few are cultivated. The buyers of these specialty oils are major firms such as the Body Shop and small specialty importers such as suppliers to massage parlors.

Based on recent test production and marketing, Sun Flag believes there is considerable potential for these specialty oils including citrine, an antimalarial oil, and oils used in pharmaceutical applications. The capital investment required is not high and the technology to press or extract the oils is not complicated.

The company is particularly interested in an oil that can be pressed from a common weed in the area (Chinese thistle?), which yields a very high-value oil. The seeds could be collected by local inhabitants, and due to the high value and low yield of the oil, the relative importance of infrastructure problems should be minimal.

Sun Flag would be very interested in cooperating with a donor to help further develop the market and processing technology for specialty oils that are based on locally available seeds that can be collected or grown by local residents. Sun Flag would be glad to share this information with other entrepreneurs because it believes there are enough opportunities for several SMEs.

Impact: Sun Flag has just started its business, but seems to have an abundance of good ideas and is backing them up with considerable personal financial and "sweat equity" investment.

Conclusions: Innovative entrepreneurs with an intimate knowledge of locally available raw materials and a reasonable understanding of international markets can often come up with good business propositions. Some of these propositions deserve further evaluation, especially where they can have a significant broad-based local impact.

A more detailed assessment of the opportunities for producing and exporting specialty oils from the Arusha/Moshi area has merit.

C-4.3 Tanzania Industrial Studies and Consulting Organization (TISCO)

Principal Objectives: Provide consulting advice to industrial entities.

Discussion: TISCO, founded in 1976 is currently a parastatal that reports to the Ministry of Industries and Trade. It has four divisions — Engineering Consultancy, Industrial Studies, Management Consultancy, and the Information Center. It is in the process of being privatized. In the past it has worked primarily for other parastatals preparing project feasibility studies, but it now must develop private sector clients.

Due to its excellent contacts with the government, TISCO believes it can help a private sector client with both the operational aspects of a project as well as the regulatory aspects and political relationships.

The Information Center division offers information management consultancy services, a library, registers of basic industrial information, and publications for potential investors.

In 1993 TISCO helped SADAC prepare reports on Regional Trade Opportunities for Tanzania and an Export Development Strategy for Tanzania. (See Mr. Palangi at SADAC for information on these studies.)

Impact: TISCO's impact on parastatals apparently did not include helping them to operate effectively, efficiently, or in a financially responsible manner.

Conclusions: Given the success of parastatals and the lack of private sector support from the GoT, TISCO may or may not have the capabilities or reputation to expand into private sector consulting.

If the GoT is sincerely interested in TISCO's success, TISCO could be a good partner for a donor to work through to supply expertise for privatization efforts.

Appendixes

The following appendixes present the detailed profiles of the entities studied for this activity. Most of the information used to develop these profiles was obtained from personal interviews with senior managers of the entity, but a few are based on secondary sources.

The level of detail presented in each profile varies. When the management of an entity was unavailable for an interview, the profile is brief, intended primarily to identify an entity relevant to agribusiness development.

AMIS II will be doing follow-up work for AFR/PSGE/PSD on NTAE development and the role of SMEs therein and on financial services for Indigenous SMEs in Southern Africa. The profiles relevant to that work will be detailed and expanded at that time.

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Notes

[1] Statement of Work: Monitoring and Impact Assessment of Innovative Approaches to Agricultural Marketing Systems Development.

[2] The material in this section applies to all three countries and will not be repeated again in the individual country summaries.

[3] There are some NGOs to which individual members of the SAEDF board have strong ties (e.g., AfriCare in Tanzania). If the local mission agrees, it might be useful for AMIS II to work with both the board member and the NGO to develop an economically and environmentally sustainable project for SAEDF consideration as well as for other USAID support.

[4] Conclusions quoted from a draft report prepared for the Consultative Group for Mozambique, International Bank for Reconstruction and Development meeting, March 1995.

[5] A British firm Mozambique government venture that is a large producer of cotton, tomato paste, and other specialty products.

[6] For example, Entreposto has established considerable acreage to train farmers in cashew grafting and related horticultural improvement techniques.

[7] The World Bank and other donors have made funds available via the Bank of Mozambique for commercial banks to lend to enterprises recommended by IDIL. IDIL, however, has no continuing oversight of the company after it is funded.

[8] Background information is updated from a March 1994 report from the U.S. embassy in Dar es Salaam.

[9] Cargill, for example, has purchased a large up-country cotton gin, purchasing raw cotton from small farmers (average ownership is 1-2 acres), instructing them as to quality requirements, and paying the farmers more and paying them more promptly than these had farmers previously received.

[10] The case study profiles for each of these entities are presented in Appendix C.

[11] Examples of NGOs with which AFC works are: The Zimbabwe Fund for Education and Production, Self-Help Financing Collective Inc., Heifer International, and Save the Children Foundation.

[12] Given that the total exports of the association are $300,000/year, a revolving line of credit of only $50,000 would finance *all* (nonflower) members' exports for 60 days.

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